

CITY OF READING

FINANCIAL AND COMPLIANCE AUDIT REPORT

Year Ended December 31, 2009

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HERBEIN+COMPANY, INC.

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**Members of City Council
City of Reading
Reading, Pennsylvania**

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Reading as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Reading's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Reading Area Water Authority and the Reading Redevelopment Authority. These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they related to the amounts included for the Reading Area Water Authority and the Reading Redevelopment Authority, are based solely upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Reading as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully discussed in Note 2, the City is considered a distressed community under the provisions of the "Municipalities Financial Recovery Act" (Act 47) of the Commonwealth of Pennsylvania. Under the provisions of Act 47, the City adopted a financial recovery plan (Plan), which among other things, permits the City to increase certain tax rates and fees, levy new taxes, and requires reduction of certain spending levels. The Plan is intended to enable the City to maintain services at the current level. The implementation of the Plan is subject to periodic review by the Pennsylvania Department of Community and Economic Development.

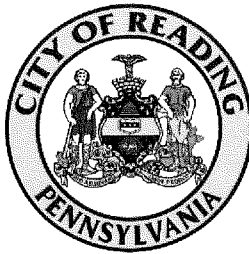
In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2010, on our consideration of the City of Reading's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and Schedules of Funding Progress and Employer Contributions - Retirement Plans and Schedule of Funding Progress - Post Employment Benefit Plan on pages 57 through 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Reading's financial statements as a whole. The individual fund and combining nonmajor fund financial statements on pages 61 through 72 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the financial statements. The individual fund and combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Herbein + Company, Inc.

Reading, Pennsylvania
July 20, 2010



CITY OF READING, PENNSYLVANIA

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The City of Reading, Pennsylvania Management's Discussion and Analysis For the Year Ended December 31, 2009

The following discussion and analysis of the City of Reading's financial outcome provides an overview of the fiscal year ending December 31, 2009. The Management Discussion and Analysis is meant to provide the citizens, taxpayers, customers, vendors, creditors, investors and the legislators with a better understanding of the City's fiscal health.

The 2009 Fiscal Year End Audit is structured with the independent auditor's report appearing at the beginning of this document, followed by the Management's Discussion and Analysis, the Basic Financial Statements, Combining and Individual Fund Financial Statement and Schedules, Required Supplementary Information Schedule of Expenditures of Federal Awards, Report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards, Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133, Schedule of Findings and Questioned costs, Status of Prior Year Findings and Recommendations, and the Corrective Action Plan.

The Government-wide Financial Statements and Fund Financial Statements have a different measurement focus and basis of accounting. The fund financial statements are used to report additional detailed information about the primary government not found in the government-wide statements and focus on major funds of the primary government.

Government-Wide Statements:

Government-wide Statements include governmental activities of the primary government, business-type activities of the primary government and non-fiduciary component units. They do not include any fiduciary activities or fiduciary-type component units.



The report focuses on changes in net assets. Government-wide statements also recognize transactions and events when they occur, independent of the timing of cash flows.

For business-type transactions, there are no changes from fund statements. For governmental activities, many changes are captured through the government-wide statements, but are not required to be changed on the general ledger. Capital assets have been added and deferred items are also captured on the reports. Depreciation is reported through the statements for governmental activities to capture the expenses versus the expenditures.

The columns for the government-wide statements are set up to capture governmental activities, business-type activities, total for primary government and the discretely presented component unit. For the City of Reading, the governmental activities are general government, public safety, public works, culture and recreation, community development and other expenses including interest payments on long-term debt. The business-type activities are Water, Sewer, and Recycling/Trash provided by the City on a fee for service basis. The component units are the Reading Parking Authority and the Reading Redevelopment Authority. The Fiduciary Funds are the Police Pension Fund, the Paid Firemen's Pension Fund and the Officers' and Employees' Pension Fund.

Fund Financial Statements:

The fund financial statements provide a more detailed outlook of the City's funds. Any major funds are detailed in the fund financial statements. For the City, the major Governmental funds are the General Fund, Community Development, Capital Projects, and Debt Service. All other funds are combined in the Non-Major Funds column.

The proprietary funds are broken down into Water Fund, Sewer Fund, Internal Service Funds and Other Enterprise Funds (Recycling/Trash). The fund financial statements consist of the balance sheets and income statements for all of the above listed funds.

Financial Highlights for FY 2009:

2009 was yet another year of financial difficulty. For the year ended December 31, 2009, expenditures exceeded revenues by \$10,045,155 in general operating fund, resulting in a 2009 year end fund balance of (\$6,531,153). Due to the resulting deficiency of revenues over expenditures, the City applied to the Pennsylvania Department of Community and Economic Development (DCED) to be considered as a "financially distressed" municipality under the Municipalities Financial Recovery Act (Act 47) of the Commonwealth of Pennsylvania in October 2009. The Secretary of the DCED approved the City of Reading's petition in November 2009.

The 2009 budget was predicated on revenue and expenditure assumptions which were adversely affected by the deep economic downturn that began in 2008, which in hindsight were optimistic. In addition, there were no one-time budgetary actions, such as asset sales, to mask the structural deficit the City of Reading has been experiencing over the past decade; which was also warned of in past Management Discussions and Analyses.

The City of Reading started fiscal year 2009 with a fund balance of \$3.5 million but a negative cash balance of approximately \$2.3 million. During the year, with declining revenues and increasing expenditures, the City of Reading borrowed \$11.5 million from the Sewer Fund, despite the federal consent decree barring the City from doing so. These conditions convinced the Mayor of the City of Reading to apply for the "financially distressed" status under Act 47.

2009 was a very difficult year for the City of Reading and faced with the worsening fiscal condition of the City, the Administration began the process of addressing the mounting fiscal problems and reporting lapses. Financial reporting to City Council was improved; balance sheets and income statements were provided monthly in the last half of the year and weekly meetings on the 2010 budget were held with departmental and finance staff to work creatively to eliminate the projected \$15 million deficit. Though we are still working to improve the financial reporting, the balanced 2010 budget was passed on November 16, 2009 with conservative revenue assumptions and reductions in expenditures.

Statement of Net Assets:

The following table consists of the condensed 2009 Statement of Net Assets:

	Governmental Activities	Business type Activities	Total Primary Government	Component Unit
ASSETS				
Current	26,788,025	29,238,722	56,026,747	5,787,008
Restricted	-	36,793,630	36,793,630	4,941,168
Capital and Other Asset	112,353,021	99,341,949	211,694,970	43,413,363
Total Assets	139,141,046	165,374,301	304,515,347	54,141,539
Current Liabilities	17,554,299	10,202,245	27,756,544	6,213,326
Long-term Liabilities	146,583,896	85,227,142	231,811,038	34,134,150
Total Liabilities	164,138,195	95,429,387	259,567,582	40,347,476
Net assets:				
Invested in capital assets, net of related debt	-	24,651,216	24,651,216	2,641,909
Restricted	-	2,817,530	2,817,530	-
Unrestricted	(24,997,149)	42,476,168	17,479,019	11,152,154
Total Net Assets	(24,997,149)	69,944,914	44,947,765	13,794,063

Statement of Net Assets:

The following table consists of the condensed 2008 Statement of Net Assets:

	2008 Governmental Activities	2008 Business type Activities	2008 Total Primary Government	2008 Component Unit
ASSETS				
Current	30,000,816	22,474,415	52,475,231	9,111,765
Restricted	-	52,844,025	52,844,225	5,194,051
Capital and Other Assets	115,939,084	85,888,343	201,827,427	37,067,080
Total Assets	145,939,900	161,206,783	307,146,683	51,372,896
Current Liabilities	27,010,474	7,928,501	34,938,975	3,639,183
Long-term Liabilities	120,149,388	89,488,622	209,638,010	34,826,046
Total Liabilities	147,159,862	97,417,123	244,576,985	38,465,229
Net assets:				
Invested in capital assets, net of related debt	-	6,550,395	6,550,395	-
Restricted	-	1,351,590	1,351,590	-
Unrestricted	(1,219,962)	55,887,675	54,667,713	12,907,667
Total Net Assets	(1,219,962)	63,789,660	62,569,698	12,907,667

The following table consists of the condensed 2009 Statement of Revenues and Expenses:

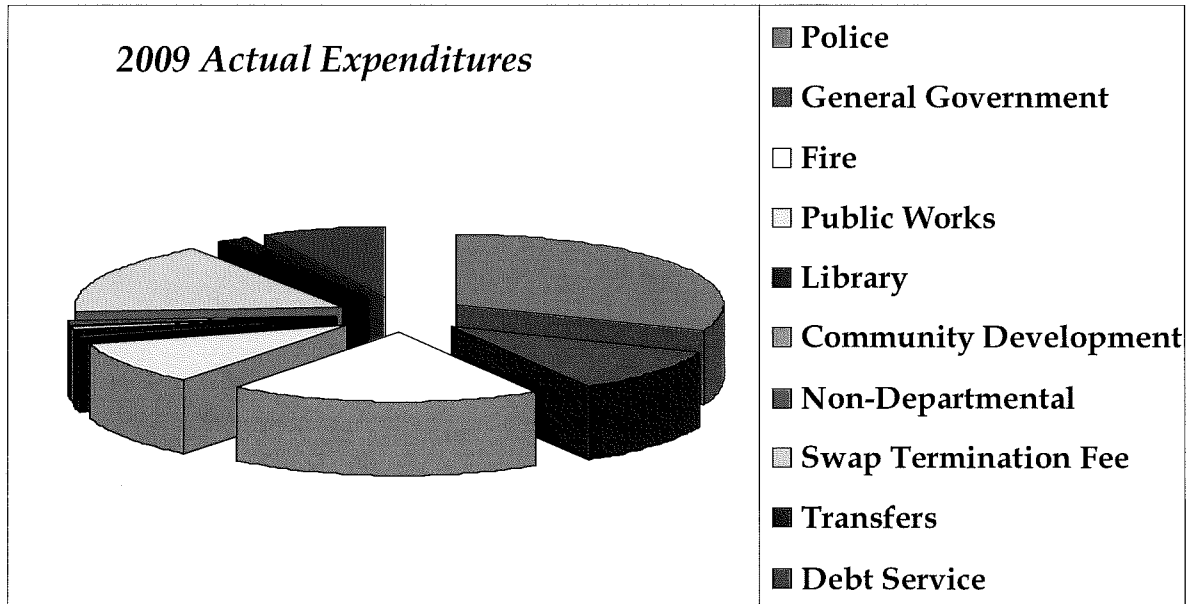
	2009 Governmental Activities	2009 Business type Activities	2009 Total Primary Government	2009 Component Unit
REVENUES				
Program Revenues:				
Charges for Services	14,184,069	50,335,341	64,519,410	8,596,679
Operating grants and contributions	13,329,088	424,252	13,753,340	
Capital grants and contributions	-	-	-	
TOTAL PROGRAM REVENUES	27,513,157	50,759,593	78,272,750	8,596,679
General Revenues:				
Property Taxes, levied for general purposes	15,829,693		15,829,693	
Earned income, franchise, and other taxes	12,816,533		12,816,533	
Investment Earnings	1,132,401	677,763	1,810,164	(46,668)
Loss on Term. Swap	(5,591,125)		(5,591,125)	
Miscellaneous income	(120,000)	(14,643)	(134,643)	144,116
Transfers	6,855,098	(6,855,098)	-	
TOTAL GENERAL REVENUES	30,922,600	(6,191,978)	24,730,622	97,448
Indirect Cost Allocation:				
Indirect cost	1,866,496	(1,866,496)	-	-
TOTAL INDIRECT REVENUES	1,866,496	(1,866,496)	-	-
Total Revenues	60,302,253	42,701,119	103,003,372	8,694,127
EXPENSES				
Functions/Programs				
Primary government				
Governmental activities:				
General government	8,287,115			
Public safety				
Police	29,234,806			
Fire	13,687,332			
EMS	3,557,950			
Public Works: other	6,638,812			
Public Works: highways and streets	2,979,750			
Culture and recreation	10,232,786			
Community Development	1,507,713			
Other	1,180,018			
Debt service - interest	6,773,158			
TOTAL GOVERNMENTAL ACTIVITIES:	84,079,440			
Business Type activities				
Water		15,143,848		
Sewer		16,466,421		
Solid Waste		4,935,596		
TOTAL BUSINESS TYPE ACTIVITIES:		36,545,865		
Total Expenses-Primary Government	84,079,440	36,545,865	120,625,305	
Component Unit:				
Reading Parking Authority				7,413,480
Reading Redevelopment Authority				394,251
CHANGE IN NET ASSETS	(23,777,187)	6,155,254	(17,621,933)	886,396
NET ASSETS-BEGINNING	(1,219,962)	63,789,660	62,569,698	12,907,667
NET ASSETS-ENDING	(24,997,149)	69,944,914	44,947,765	13,794,063

The following table consists of the condensed 2008 Statement of Revenues and Expenses:

	2008 Governmental Activities	2008 Business type Activities	2008 Total Primary Government	2008 Component Unit
REVENUES				
Program Revenues:				
Charges for Services	18,407,644	48,259,733	66,667,377	8,352,983
Operating grants and contributions	15,146,123	465,218	15,611,341	
Capital grants and contributions	-	1,460,134	1,460,134	
TOTAL PROGRAM REVENUES	33,553,767	50,185,085	83,738,852	8,352,983
General Revenues:				
Property Taxes, levied for general purposes	15,220,996		15,220,996	
Earned income, franchise, and other taxes	15,573,380		15,573,380	
Investment Earnings	1,656,048	791,232	2,447,280	734,496
Loss on Term. Swap	(8,824,506)		(8,824,506)	
Miscellaneous income		363,873	363,873	506,235
Transfers	6,252,195	(6,252,195)	-	
TOTAL GENERAL REVENUES	29,878,113	(5,097,090)	24,781,023	1,240,731
Indirect Cost Allocation:				
Indirect cost	1,867,231	(1,867,231)	-	-
TOTAL INDIRECT REVENUES	1,867,231	(1,867,231)	-	-
Total Revenues	65,299,111	43,220,764	108,519,875	9,593,714
EXPENSES				
Functions/Programs				
Primary government				
Governmental activities:				
General government	9,311,236			
Public safety				
Police	29,393,133			
Fire	12,413,899			
EMS	3,791,937			
Public Works: other	6,935,120			
Public Works: highways and streets	2,694,999			
Culture and recreation	14,526,122			
Community Development	1,236,470			
Other	809,930			
Debt service - interest	7,351,377			
TOTAL GOVERNMENTAL ACTIVITIES:	88,464,223			
Business Type activities				
Water		14,140,052		
Sewer		14,216,995		
Solid Waste		4,706,731		
TOTAL BUSINESS TYPE ACTIVITIES:		33,063,778		
Total Expenses-Primary Government	88,464,223	33,063,778	121,528,001	
Component Unit:				6,326,091
Reading Parking Authority				356,961
Reading Redevelopment Authority				6,683,052
CHANGE IN NET ASSETS	(23,165,112)	10,156,986	(13,008,126)	2,910,662
NET ASSETS-BEGINNING	21,945,150	53,632,674	75,577,824	9,997,005
NET ASSETS-ENDING	(1,219,962)	63,789,660	62,569,698	12,907,667

General Fund Financial Highlights:

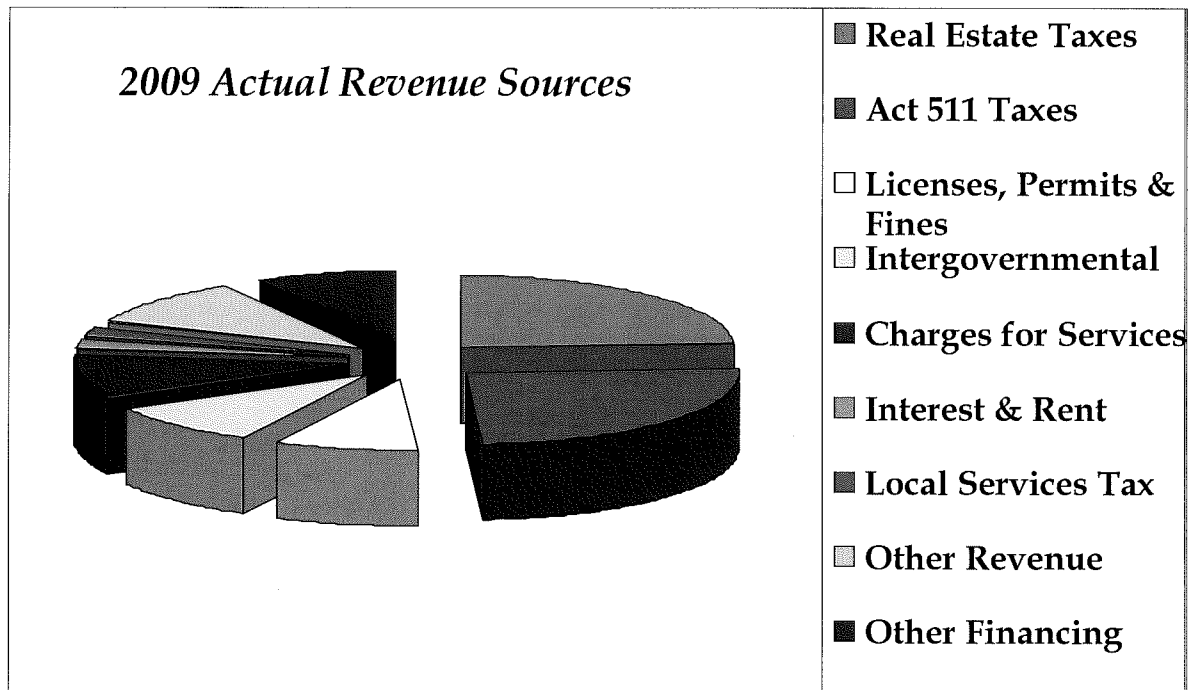
Expenditures:



Police	\$25,758,337	31.09%
General Government	\$ 7,335,633	10.32%
Fire - EMS	\$14,756,820	19.09%
Public Works	\$ 7,932,796	10.11%
Library	\$ 1,347,388	1.72%
Community Development	\$ 2,294,424	0.66%
Non-Departmental	\$ 1,180,018	1.02%
Swap Termination Fee	\$ 8,214,038	16.64%
Transfers	\$ 9,654,984	1.90%
Debt Service	\$15,597,614	7.45%
Total	\$94,072,002	100.00%

Total General Government, which consists of the Office of the Mayor, City Council, City Auditor, Office of the Managing Director, City Clerk, Department of Finance, Department of Human Resources and the Department of Law, ended the fiscal year \$1,122,837 over budget. Total Public Safety expenditures were \$2,712,649 more than budgeted and total Public Works expenditures were \$258,553 more than their budget. In 2009 all departmental categories came in over budget, in some areas significantly so, and revenues remained insufficient to support the cost of operations. Tight fiscal controls and exceptional management will not be able to compensate for the fundamental lack of resources necessary to provide current levels of service.

Revenues:



Real Estate Taxes	\$15,770,385	19.96%
Act 511 Taxes	\$12,773,191	20.36%
Licenses, Permits & Fines	\$ 4,320,134	7.01%
Intergovernmental	\$ 5,169,791	7.80%
Charges for Services	\$ 6,324,394	8.08%
Interest & Rent	\$ 997,261	1.87%
Other Revenue	\$ 6,395,567	8.86%
Other Financing	\$32,276,124	26.08%
Total	<u>\$84,026,847</u>	<u>100.00%</u>

The City of Reading has several sources of revenue; the largest single portion for the general fund budget coming from real estate taxes. To place revenues and expenses into perspective, Public Safety expenditures should be compared to real estate taxes. Public Safety's actual expenditures for 2009 were \$40.5 million dollars and actual 2009 real estate tax revenues were \$15.7 million. The nearly \$25 million difference highlights the problem of many third class cities in the Commonwealth of Pennsylvania; real estate taxes cannot fund necessary Public Safety services. The PEL fiscal health study verified that the five study cities (Reading, Easton, Bethlehem, Lancaster and York) are all unable to support Public Safety services with real estate tax revenues. The City of Reading's current 2010 millage rate is 11.445 mills or .011445 times the assessment value.

The other categories of revenue are Act 511 Taxes (Per Capita, Real Estate Transfer, Earned Income, Occupation Privilege, and Business Privilege Tax), Licenses, Permits and Fines, Intergovernmental, Charges for Services, Interest and Rent, Other, and Other Financing Sources. In 2008 the revenue from Act 511 taxes was \$15.5 million and in 2009 the Act 511 tax revenue was only \$12.7 million. The loss in Act 511 taxes in 2009 was due to the sharp drop in the Real Estate Transfer Tax; a direct result of the national housing market crisis. The City is at the maximum allowable level for Act 511 Taxes with the exception of the Earned Income and Real Estate Transfer Taxes which can be increased since the City is governed by a Home Rule Charter.

Licenses, Permits and Fines are fees set by local ordinances. The total revenue from these fees totaled \$4.3 million in 2009; a \$1.0 million decrease from the \$5.3 million collected in 2008. The decrease was due to the late issuance of the housing permits. Fines and fees were adjusted in 2009 and have continued to be adjusted to reflect the results of cost analyses. Intergovernmental charges, which were \$5.1 million for FY 2009, are negotiated or donated contributions from other government entities (grants, coordinated services, etc.). Charges for Services are set by local ordinances and are based on the cost of the program or service divided by the number of transactions for each program or service. Charges for Services totaled \$6.3 million in 2009. Interest and rent are competitive rates and contractual obligations from outside parties. The 2009 year end total was \$1 million, which represents a slight decrease from previous years. Other revenue of \$6.4 million comes from such items as sales of property/equipment, direct cost reimbursement, indirect cost reimbursements, interfund transfers, etc. The largest single increase in this category is attributed to a donation from the Reading Parking Authority of \$3,107,747.

Capital Assets and City Debt:

In January 2009, the City issued tax and revenue anticipation notes in the amount of \$3,000,000. The notes were repaid in 2009.

In 2009 the City issued a \$25,000,000 General Obligation (GO) Bond for the purpose of refunding the City's outstanding GO Note, Series 2006, fund various capital projects of the City, fund the termination payment of a forward fixed payer swap, and to pay the costs related to the issuance of the bonds. While the refunding and swap terminations executed in 2009 came at a cost, their enactment provided crucial budgetary relief. Furthermore, future budget accuracy has been achieved by leveling off debt service payments through 2033.

The City's debt service expenditures in its governmental activities were \$7,621,434, 9.6% of its total expenditures. The City of Reading used 26.7% of its current tax revenues to finance debt services requirements.

Economic Factors and 2009's Budgets and Rates:

2009 was a difficult year for the City of Reading and its citizens; unemployment exceeded 13% and home sales continued to plunge. 32.9% of all residents lived below the poverty level, including 45.7% of those under the age of 18, and median family income was below \$30,000. The economic recession and the citizenry poverty level drastically affected the City's revenues. Overall revenues and expenditures, before other financing sources, were \$9.6 million below and \$9.2 million above their respective budgeted amounts.

The City of Reading maintained the earned income tax at 2.7% and property tax rate of 10.9 mills in fiscal year 2009. However, the revenues from the EIT was \$0.7 million below budget.

The City, as part of an Early Intervention Program study funded by the Pennsylvania Department of Community and Economic Development, commissioned an analysis of the existing fines and fees and the many of the suggested changes were implemented and incorporated into the 2009 budget. As mentioned in the 2008 Management Discussion and Analysis, revenues did increase on an annualized basis by almost \$1.5 million.

Economic development continued in 2009 but was adversely affected by the recession and tightening of the credit markets. The Hotel and Convention Center, to be located on Penn Street across from the Sovereign Arena, was placed on hold in 2009 due to financing difficulties but is slated to break ground in the first quarter of 2011. Efforts continue to be made to improve the quality of neighborhoods and the value of the residential homes. The Blighted Property Review Committee built on its 2008 successes to extend their reach to improve the housing stock and the Goggle Apartments should break ground by the fourth quarter of 2010.

Contacting the City's Finance Management:

The Management Discussion and Analysis is meant to provide the citizens, taxpayers, customers, vendors, creditors, investors and the legislators with a better understanding of the City's fiscal health. If you have any questions about this report or need additional financial information, please contact Carl E. Geffken, Interim Managing Director by telephone at 610-655-6222 or by e-mail at carl.geffken@readingpa.org or by mail at 815 Washington Street, Reading PA 19601. If you have any questions concerning the Reading Area Water Authority financial information, please contact Deputy Executive Director, Reading Area Water Authority by mail at 815 Washington Street, Reading, PA 19601. If you have any questions concerning the Reading Parking Authority, please contact Lawrence Lee by telephone at 610-655-6166 or by mail at 635 Franklin Street, Reading, Pa. 19601.

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CITY OF READING
STATEMENT OF NET ASSETS

December 31, 2009

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
ASSETS					
Current assets					
Cash and cash equivalents	\$ 15,391,721	\$ 15,173,073	\$ 30,564,794	\$ 3,374,786	\$ 54,423
Investments	5,114,037	219,789	5,333,826	-	1,755,417
Accounts receivable, net	5,919,885	6,359,067	12,278,952	286,006	40,333
Taxes receivable, net	2,391,602	-	2,391,602	-	-
Internal balances	(3,351,164)	3,351,164	-	-	-
Intergovernmental receivables	1,321,944	2,636,720	3,958,664	-	-
Inventory	-	1,270,845	1,270,845	-	130,241
Lease receivable - current portion	-	-	-	-	100,000
Other current assets	-	228,064	228,064	45,802	-
Total current assets	26,788,025	29,238,722	56,026,747	3,706,594	2,080,414
Restricted assets					
Cash and investments	-	36,793,630	36,793,630	4,931,454	9,714
Other noncurrent assets					
Unamortized bond issue costs	3,273,240	2,167,780	5,441,020	556,115	-
Unamortized loan origination fee	-	-	-	332,801	-
Notes receivable, noncurrent	27,945,318	-	27,945,318	-	-
Net pension asset	40,353,478	-	40,353,478	-	-
Lease receivable - noncurrent portion	-	-	-	-	3,515,000
Capital assets					
Land	280,960	2,074,359	2,355,319	2,614,070	-
Buildings, net of accumulated depreciation	14,433,449	21,677,003	36,110,452	28,183,505	-
Machinery and equipment, net of accumulated depreciation	8,049,486	5,318,663	13,368,149	541,040	-
Improvements, net of accumulated depreciation	11,004,993	45,205,701	56,210,694	31,425	-
Infrastructure, net of accumulated depreciation	2,243,894	-	2,243,894	-	-
Construction in progress	4,768,203	22,898,443	27,666,646	7,639,407	-
Total other noncurrent assets	112,353,021	99,341,949	211,694,970	39,898,363	3,515,000
TOTAL ASSETS	\$ 139,141,046	\$ 165,374,301	\$ 304,515,347	\$ 48,536,411	\$ 5,605,128

See accompanying notes.

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
LIABILITIES AND NET ASSETS					
LIABILITIES					
Current liabilities					
Accounts payable	\$ 11,729,413	\$ 4,550,611	\$ 16,280,024	\$ 3,135,087	\$ 7,740
Benefits payable	112,900	-	112,900	41,071	-
Accrued interest	708,674	109,516	818,190	55,648	11,549
Deferred revenue	2,060,464	-	2,060,464	-	-
Interest rate swap contract	234,072	-	234,072	-	-
Other current liabilities	517,000	108,606	625,606	-	-
Current portion lease payable	100,000	-	100,000	-	-
Current portion notes and bonds payable	2,091,776	5,433,512	7,525,288	2,862,231	100,000
Total current liabilities	17,554,299	10,202,245	27,756,544	6,094,037	119,289
Noncurrent liabilities					
Notes and bonds payable	148,205,923	91,100,072	239,305,995	42,422,244	3,515,000
Lease payable	3,515,000	-	3,515,000	-	-
Unamortized bond premium	-	803,582	803,582	-	-
Unamortized bond discount	(397,268)	(558,784)	(956,052)	-	-
Deferred loss on bond issuance	(3,519,490)	(1,028,176)	(4,547,666)	(3,325,614)	-
Unamortized interest on capital appreciation bonds	(7,125,635)	(5,437,378)	(12,563,013)	(8,534,766)	-
Other	-	-	-	57,286	-
Other post employment benefits	4,827,961	347,826	5,175,787	-	-
Accrued compensated absences	1,077,405	-	1,077,405	-	-
Total noncurrent liabilities	146,583,896	85,227,142	231,811,038	30,619,150	3,515,000
TOTAL LIABILITIES	164,138,195	95,429,387	259,567,582	36,713,187	3,634,289
NET ASSETS					
Invested in capital assets, net of related debt	-	24,651,216	24,651,216	2,641,909	-
Restricted for:					
Capital projects	-	2,817,530	2,817,530	-	-
Unrestricted	(24,997,149)	42,476,168	17,479,019	9,181,315	1,970,839
TOTAL NET ASSETS	(24,997,149)	69,944,914	44,947,765	11,823,224	1,970,839
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 139,141,046</u>	<u>\$ 165,374,301</u>	<u>\$ 304,515,347</u>	<u>\$ 48,536,411</u>	<u>\$ 5,605,128</u>

CITY OF READING
STATEMENT OF ACTIVITIES
Year Ended December 31, 2009

Functions/Programs	Expenses	Indirect Cost Allocation	Program Revenues		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government					
Governmental activities:					
General government	\$ 8,287,115	\$ (2,056,008)	\$ 4,921,834	\$ 5,741,965	\$ -
Public safety:					
Police	29,234,806	-	324,569	2,218,734	-
Fire	13,687,332	-	3,025,844	57,922	-
EMS	3,557,950	-	4,276,124	350,046	-
Public works - highways and streets	2,979,750	-	44,010	1,399,556	-
Public works - other	6,638,812	-	1,563,251	69,353	-
Community development	1,507,713	189,512	(751,061)	2,591,512	-
Culture and recreation	10,232,786	-	555,408	900,000	-
Other	1,180,018	-	224,090	-	-
Debt service - interest	6,773,158	-	-	-	-
Total governmental activities	\$84,079,440	(1,866,496)	\$14,184,069	13,329,088	-
Business-type activities:					
Water	15,143,848	749,901	19,130,300	(108,712)	-
Sewer	16,466,421	967,532	26,549,422	-	-
Trash and recycling	4,935,596	149,063	4,655,619	532,964	-
Total business-type activities	36,545,865	1,866,496	50,335,341	424,252	-
Total primary government	\$ 120,625,305	\$ -	\$ 64,519,410	\$ 13,753,340	\$ -
Component Unit:					
Reading Parking Authority:					
Parking	\$ 7,413,480	\$ -	\$ 8,064,729	\$ -	\$ -
Reading Redevelopment Authority:					
Redevelopment	394,251	-	531,950	-	-

General Revenues and Transfers:

Taxes:

Property taxes, levied for general purposes
Earned income, franchise, and other taxes, levied for general purposes, net
Investment earnings (loss)
Miscellaneous income (expense)
Loss on termination of swaps
Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

See accompanying notes.

Net (Expense) Revenue and Changes in Net Assets				
Governmental Activities	Business-Type Activities	Total	Component Unit (Reading Parking Authority)	Component Unit (Reading Redevelopment Authority)
\$ 4,432,692	\$ -	\$ 4,432,692	\$ -	\$ -
(26,691,503)	-	(26,691,503)	-	-
(10,603,566)	-	(10,603,566)	-	-
1,068,220	-	1,068,220	-	-
(1,536,184)	-	(1,536,184)	-	-
(5,006,208)	-	(5,006,208)	-	-
143,226	-	143,226	-	-
(8,777,378)	-	(8,777,378)	-	-
(955,928)	-	(955,928)	-	-
(6,773,158)	-	(6,773,158)	-	-
(54,699,787)	-	(54,699,787)	-	-
-	3,127,839	3,127,839	-	-
-	9,115,469	9,115,469	-	-
-	103,924	103,924	-	-
-	12,347,232	12,347,232	-	-
(54,699,787)	12,347,232	(42,352,555)	-	-
-	-	-	651,249	-
-	-	-	-	137,699
15,829,693	-	15,829,693	-	-
12,816,533	-	12,816,533	-	-
1,132,401	677,763	1,810,164	(56,948)	10,280
(120,000)	(14,643)	(134,643)	3,176	140,940
(5,591,125)	-	(5,591,125)	-	-
6,855,098	(6,855,098)	-	-	-
30,922,600	(6,191,978)	24,730,622	(53,772)	151,220
(23,777,187)	6,155,254	(17,621,933)	597,477	288,919
(1,219,962)	63,789,660	62,569,698	11,225,747	1,681,920
\$ (24,997,149)	\$ 69,944,914	\$ 44,947,765	\$ 11,823,224	\$ 1,970,839

CITY OF READING

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2009

	General	Community Development
ASSETS		
Cash and cash equivalents	\$ (2,338,466)	\$ 2,569,376
Investments	1,027,304	-
Accounts receivable	2,833,643	243,469
Taxes receivable, net	1,766,320	-
Interfund receivable	11,383,380	250,895
Intergovernmental receivable	-	292,748
Notes receivable - noncurrent	-	24,391,642
TOTAL ASSETS	\$ 14,672,181	\$ 27,748,130
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 1,896,191	\$ 427,790
Payroll withholdings	112,900	-
Interfund payable	17,035,566	2,136,883
Deferred revenue	1,641,677	24,391,642
Other liabilities	517,000	-
TOTAL LIABILITIES	21,203,334	26,956,315
FUND BALANCES		
Reserve for capital projects	-	-
Reserve for debt service	-	-
Unreserved/undesignated fund balances:		
General fund	(6,531,153)	-
Community development	-	791,815
Agency fund	-	-
Liquid fuels	-	-
TOTAL FUND BALANCES	(6,531,153)	791,815
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,672,181	\$ 27,748,130

See accompanying notes.

Capital Projects	Debt Service	Nonmajor Funds	Total Governmental Funds
\$ 10,601,335	\$ 4,463	\$ 3,480,878	\$ 14,317,586
471,345	572	226,060	1,725,281
-	-	2,840,272	5,917,384
-	-	-	1,766,320
2,669,595	158,658	399,614	14,862,142
-	-	-	292,748
4,182,348	2,580,000	-	31,153,990
<u>\$ 17,924,623</u>	<u>\$ 2,743,693</u>	<u>\$ 6,946,824</u>	<u>\$ 70,035,451</u>
\$ 295,786	\$ -	\$ 2,039,173	\$ 4,658,940
-	-	-	112,900
54,432	-	2,600,986	21,827,867
-	2,580,000	1,031,268	29,644,587
-	-	-	517,000
350,218	2,580,000	5,671,427	56,761,294
17,574,405	-	-	17,574,405
-	163,693	-	163,693
-	-	-	(6,531,153)
-	-	-	791,815
-	-	573,430	573,430
-	-	701,967	701,967
17,574,405	163,693	1,275,397	13,274,157
<u>\$ 17,924,623</u>	<u>\$ 2,743,693</u>	<u>\$ 6,946,824</u>	<u>\$ 70,035,451</u>

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CITY OF READING

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS**

December 31, 2009

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 13,274,157
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**Amounts reported for governmental activities in the statement
of net assets are different because:**

Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is \$85,900,102 and the accumulated depreciation is \$45,119,117.	40,780,985
--	------------

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore, are deferred in the funds.	2,518,845
---	-----------

Other long-term loans (receivables) are not available to pay current period expenditures and therefore, are deferred in the funds.	26,971,642
--	------------

Establish allowance for doubtful accounts - property taxes receivable (\$251,884) and other long-term asset receivables (\$3,208,673).	(3,460,557)
--	-------------

Net pension asset established upon long-term financing of unfunded pension obligation to be amortized over future periods when benefit is received.	40,353,478
---	------------

Internal service funds used by management to charge the costs of workman's compensation insurance and other insurance to individual funds. The change in net assets of internal service funds is transferred to the governmental funds.	1,009,479
---	-----------

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:

Bond Discount, Net of Amortization	\$	397,268	
Bond Issuance Costs, Net of Amortization		3,273,240	
Bonds/Notes/Leases Payable		(153,912,699)	
Accrued Interest on Bonds		(708,674)	
Unamortized Interest		7,125,635	
Other Post Employment Benefits		(4,827,961)	
Compensated Absences		(1,077,405)	
Deferred Loss on Bond Issuance		3,519,490	(146,211,106)

Interest rate option payment to be amortized over the life of agreement, net of amortization.	(234,072)
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TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u><u>\$ (24,997,149)</u></u>
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CITY OF READING

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended December 31, 2009

	General	Community Development	Capital Projects
Revenues:			
Real estate taxes	\$ 15,770,385	\$ -	\$ -
Act 511 taxes	12,773,191	-	-
Licenses, permits and fines	4,320,134	-	-
Intergovernmental	5,169,791	2,411,784	-
Charges for services	6,324,394	1,410,885	-
Interest and rent	997,261	-	10,834
Other	6,395,567	-	-
TOTAL REVENUES	51,750,723	3,822,669	10,834
Expenditures:			
Current:			
General government	7,335,633	-	-
Public safety			
Police	25,758,337	-	-
Fire	11,257,285	-	-
EMS	3,499,535	-	-
Public works - highways and streets	1,299,945	-	-
Public works - other	6,632,851	-	-
Community development	2,294,424	4,349,285	-
Culture and recreation	1,347,338	-	-
Other	1,180,018	-	-
Capital outlays	-	-	1,050,831
Debt service - principal	10,249,100	-	-
Debt service - interest	5,348,514	-	-
TOTAL EXPENDITURES	76,202,980	4,349,285	1,050,831
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(24,452,257)	(526,616)	(1,039,997)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	25,000,000	-	-
Bond discounts	(123,038)	-	-
Swap termination fees	(8,091,000)	-	-
Transfers to component unit	(120,000)	-	-
Operating transfers in	7,276,124	-	-
Operating transfers out	(9,534,984)	-	7,411,523
TOTAL OTHER FINANCING SOURCES (USES)	14,407,102	-	7,411,523
NET CHANGE IN FUND BALANCES	(10,045,155)	(526,616)	6,371,526
FUND BALANCES - BEGINNING	3,514,002	1,318,431	11,202,879
FUND BALANCES - ENDING	\$ (6,531,153)	\$ 791,815	\$ 17,574,405

See accompanying notes.

Debt Service	Nonmajor Funds	Total Governmental Funds
\$ -	\$ -	\$ 15,770,385
-	-	12,773,191
-	-	4,320,134
-	5,746,502	13,328,077
-	-	7,735,279
2	124,304	1,132,401
11,298	8,450	6,415,315
11,300	5,879,256	61,474,782
-	-	7,335,633
-	896,790	26,655,127
-	117,980	11,375,265
-	-	3,499,535
-	1,328,075	2,628,020
-	-	6,632,851
-	3,542,864	10,186,573
-	100,961	1,448,299
-	-	1,180,018
-	-	1,050,831
-	-	10,249,100
13,820	-	5,362,334
13,820	5,986,670	87,603,586
(2,520)	(107,414)	(26,128,804)
-	-	25,000,000
-	-	(123,038)
-	-	(8,091,000)
-	-	(120,000)
-	-	7,276,124
-	-	(2,123,461)
-	-	21,818,625
(2,520)	(107,414)	(4,310,179)
166,213	1,382,811	17,584,336
\$ 163,693	\$ 1,275,397	\$ 13,274,157

CITY OF READING

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

Year Ended December 31, 2009

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS

\$ (4,310,179)

**Amounts reported for governmental activities in the statement
of activities are different because:**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Outlays	\$ 2,517,099	
Less: Depreciation Expense	<u>(3,179,994)</u>	(662,895)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These include the change of unavailable deferred revenue:

Tax Revenue	59,310	
Notes Receivable	<u>(2,186,298)</u>	(2,126,988)

Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, neither transaction has any issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term transactions in the statement of activities as shown below:

Issuance of Bonds and Notes	(25,000,000)	
Amortization of Bond Discount	108,626	
Amortization of Deferred Gains/Losses on Bond Issuance	(335,267)	
Repayment of Bond Principal	10,344,100	
Amortization of Bond Issuance Costs	<u>776,667</u>	(14,105,874)

Loss on termination of interest rate management plans and amortization of interest on outstanding swap agreements.

2,523,578

CITY OF READING

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES -
CONTINUED

Year Ended December 31, 2009

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest accrued in the statement of activities over the amount due is shown here.

(1,034,464)

In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

(9,900)

Internal service funds are used by management to charge the cost of insurance bond related claims to individual funds. Net revenues over expenditures were allocated back equitably to governmental activities.

478,745

Pension expense amortized to fund unfunded actuarial pension accrued liability in excess of the annual required contribution.

(2,373,734)

Post employment benefits are recognized when they are paid on the fund statements. With the implementation of GASB #45, an estimated liability for future benefits due will be phased in over several years. This amount represents the difference between the estimated annual cost and the amount paid.

(2,405,476)

Settlement payable in the current period, awarded and accrued in a prior period.

250,000

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ (23,777,187)

CITY OF READING

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS

Year Ended December 31, 2009

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)	Total Enterprise Funds	Internal Service Funds
ASSETS					
Current assets					
Cash and cash equivalents	\$ 7,245,315	\$ 6,525,967	\$ 1,401,791	\$ 15,173,073	\$ 1,074,135
Investments	114,937	104,852	-	219,789	3,388,756
Accounts receivable, net of allowance of \$5,705,496 in the enterprise funds	2,287,004	2,574,176	1,497,887	6,359,067	2,501
Interfund receivables	5,730,786	12,934,049	342,332	19,007,167	1,826,747
Intergovernmental receivables	-	2,636,720	-	2,636,720	-
Other receivables	178,956	-	-	178,956	-
Prepaid expenses	49,108	-	-	49,108	-
Inventory	1,270,845	-	-	1,270,845	-
Total current assets	16,876,951	24,775,764	3,242,010	44,894,725	6,292,139
Restricted assets					
Cash and investments	20,299,602	16,494,028	-	36,793,630	-
Other noncurrent assets					
Unamortized bond issue costs	1,037,751	1,130,029	-	2,167,780	-
Land	2,059,359	15,000	-	2,074,359	-
Buildings	7,789,674	38,216,252	-	46,005,926	-
Improvements	54,275,585	25,957,382	-	80,232,967	-
Machinery and equipment	8,277,465	7,932,420	546,651	16,756,536	-
Construction in progress	5,328,755	17,569,688	-	22,898,443	-
Less: accumulated depreciation	(37,276,276)	(33,232,359)	(285,427)	(70,794,062)	-
Total other noncurrent assets	41,492,313	57,588,412	261,224	99,341,949	-
TOTAL ASSETS	\$ 78,668,866	\$ 98,858,204	\$ 3,503,234	\$ 181,030,304	\$ 6,292,139

See accompanying notes.

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)	Total Enterprise Funds	Internal Service Funds
LIABILITIES AND NET ASSETS					
LIABILITIES					
Current liabilities					
Accounts payable	\$ 950,958	\$ 3,169,531	\$ 430,122	\$ 4,550,611	\$ 222,079
Interfund payables	7,979,312	4,963,003	2,713,688	15,656,003	2,817,338
Accrued interest	109,516	-	-	109,516	-
Accrued claims	-	-	-	-	2,243,243
Escrow deposits	108,606	-	-	108,606	-
Current portion notes and bonds payable	1,790,978	3,642,534	-	5,433,512	-
Total current liabilities	10,939,370	11,775,068	3,143,810	25,858,248	5,282,660
Noncurrent liabilities					
Post Employment Benefits Obligations	147,799	188,974	11,053	347,826	-
Bond discount	-	(558,784)	-	(558,784)	-
Bond premium	803,582	-	-	803,582	-
Deferral on refunding	(358,248)	(669,928)	-	(1,028,176)	-
Unamortized interest on capital appreciation bonds	(5,437,378)	-	-	(5,437,378)	-
Notes and bonds payable	54,134,116	36,965,956	-	91,100,072	-
Total noncurrent liabilities	49,289,871	35,926,218	11,053	85,227,142	-
TOTAL LIABILITIES	60,229,241	47,701,286	3,154,863	111,085,390	5,282,660
NET ASSETS					
Invested in capital assets, net of related debt	6,181,358	18,208,634	261,224	24,651,216	-
Restricted for capital projects	2,817,530	-	-	2,817,530	-
Unrestricted net assets	9,440,737	32,948,284	87,147	42,476,168	1,009,479
TOTAL NET ASSETS	18,439,625	51,156,918	348,371	69,944,914	1,009,479
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 78,668,866</u>	<u>\$ 98,858,204</u>	<u>\$ 3,503,234</u>	<u>\$ 181,030,304</u>	<u>\$ 6,292,139</u>

CITY OF READING

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS

Year Ended December 31, 2009

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)
OPERATING REVENUES			
Charges for services	\$19,057,493	\$ 26,549,422	\$ 4,612,819
Other	72,807	-	42,800
TOTAL OPERATING REVENUES	19,130,300	26,549,422	4,655,619
OPERATING EXPENSES			
Personnel	4,471,667	5,107,134	275,163
Depreciation and amortization	1,924,056	2,163,058	58,866
Other	6,286,870	6,924,531	4,750,630
TOTAL OPERATING EXPENSES	12,682,593	14,194,723	5,084,659
NET OPERATING INCOME (LOSS)	6,447,707	12,354,699	(429,040)
NONOPERATING REVENUES (EXPENSES)			
Grants	(108,712)	-	532,964
Interest income	221,744	456,019	-
Interest expense	(2,342,520)	(2,334,230)	-
Other	(28,745)	47	14,055
NET NONOPERATING REVENUES (EXPENSES)	(2,258,233)	(1,878,164)	547,019
INCOME (LOSS) BEFORE OPERATING TRANSFERS	4,189,474	10,476,535	117,979
Operating transfers in	-	-	-
Operating transfers out	(4,589,284)	(4,039,450)	-
NET INCOME (LOSS)	(399,810)	6,437,085	117,979
NET ASSETS, BEGINNING OF YEAR	18,839,435	44,719,833	230,392
NET ASSETS, END OF YEAR	\$ 18,439,625	\$ 51,156,918	\$ 348,371

See accompanying notes.

<u>Total Enterprise Funds</u>	<u>Internal Service Funds</u>
\$ 50,219,734	\$ -
<u>115,607</u>	<u>246,976</u>
50,335,341	246,976
9,853,964	72,374
4,145,980	-
<u>17,962,031</u>	<u>3,182,322</u>
31,961,975	3,254,696
18,373,366	(3,007,720)
424,252	-
677,763	10,394
(4,676,750)	-
<u>(14,643)</u>	<u>-</u>
(3,589,378)	10,394
14,783,988	(2,997,326)
-	3,476,071
<u>(8,628,734)</u>	<u>-</u>
6,155,254	478,745
<u>63,789,660</u>	<u>530,734</u>
<u>\$ 69,944,914</u>	<u>\$ 1,009,479</u>

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended December 31, 2009

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 20,307,114	\$ 26,075,334	\$ 4,608,563
Cash payments to employees for services	(4,471,667)	(5,006,242)	(269,596)
Cash payments to suppliers for goods and services	(7,416,829)	(14,991,239)	(4,569,130)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	8,418,618	6,077,853	(230,163)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Nonoperating revenues/expenses, net	(28,745)	47	14,055
Grants	(108,712)	-	532,964
Operating transfers in	-	-	-
Operating transfers out	(4,589,284)	(4,039,450)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(4,726,741)	(4,039,403)	547,019
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Advance from bond proceeds account	4,513,372	-	-
Acquisition of property and equipment	(5,070,830)	(12,658,131)	-
Interest paid	(1,753,847)	(2,334,230)	-
Payments of long-term debt	(1,773,546)	(3,661,546)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,084,851)	(18,653,907)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	221,744	456,019	-
Net purchase (redemption) of investments	(1,224)	11,497,901	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	220,520	11,953,920	-
NET INCREASE (DECREASE) IN CASH	(172,454)	(4,661,537)	316,856
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,417,769	11,187,504	1,084,935
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,245,315</u>	<u>\$ 6,525,967</u>	<u>\$ 1,401,791</u>

See accompanying notes.

Totals	Internal Service Fund
\$ 50,991,011	\$ 244,475
(9,747,505)	(72,374)
(26,977,198)	(3,652,818)
14,266,308	(3,480,717)
(14,643)	-
424,252	-
-	3,476,071
(8,628,734)	-
(8,219,125)	3,476,071
4,513,372	-
(17,728,961)	-
(4,088,077)	-
(5,435,092)	-
(22,738,758)	-
677,763	10,394
11,496,677	(106,397)
12,174,440	(96,003)
(4,517,135)	(100,649)
19,690,208	1,174,784
\$ 15,173,073	\$ 1,074,135

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED

Year Ended December 31, 2009

	Water Fund	Sewer Fund	Other Enterprise Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 6,447,707	\$ 12,354,699	\$ (429,040)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,924,056	2,163,058	58,866
Amortization of bond issue costs	70,525	58,850	-
Amortization of bond (premium) discount costs	-	23,445	-
Amortization of deferral on refunding	60,549	316,412	-
Net (increase) decrease in assets:			
Accounts receivable	(275,685)	(474,088)	(47,056)
Other receivables	1,376,539	-	-
Prepaid expenses	(42,135)	-	-
Due from other funds	(3,019,799)	(10,950,244)	(3,444)
Due from other governments	-	23,708	-
Inventory	(616,004)	-	-
Net increase (decrease) in liabilities:			
Accounts payable	692,137	1,609,563	13,331
Due to other funds	1,724,768	851,558	171,613
Other liabilities	75,960	100,892	5,567
Accrued claims	-	-	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 8,418,618</u>	<u>\$ 6,077,853</u>	<u>\$ (230,163)</u>

See accompanying notes.

<u>Totals</u>	<u>Internal Service Fund</u>
\$ 18,373,366	\$ (3,007,720)
4,145,980	-
129,375	-
23,445	-
376,961	-
(796,829)	(2,501)
1,376,539	-
(42,135)	-
(13,973,487)	(162,955)
23,708	-
(616,004)	-
2,315,031	(545,750)
2,747,939	128,755
182,419	-
-	109,454
<u>\$ 14,266,308</u>	<u>\$ (3,480,717)</u>

CITY OF READING

STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

December 31, 2009

	Total Trust Funds	Agency Earned Income Tax Fund
ASSETS		
Cash and cash equivalents	\$ 6,799,552	\$ 2,160,587
Investments	151,886,037	2,348,977
Interfund receivable	1,592,160	3,407,437
TOTAL ASSETS	\$ 160,277,749	\$ 7,917,001
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 240,021	\$ 2,134,619
Interfund payable	38,001	356,444
Funds held in escrow	-	5,425,938
TOTAL LIABILITIES	278,022	7,917,001
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	159,999,727	-
TOTAL NET ASSETS AND LIABILITIES	\$ 160,277,749	\$ 7,917,001

CITY OF READING

STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS

Year Ended December 31, 2009

ADDITIONS

Contributions	
Member, city and state contributions	\$ 6,789,192
Investment income	
Interest and dividends	4,122,646
Realized and unrealized gain (loss) on sale of investments	<u>19,544,061</u>
TOTAL ADDITIONS	30,455,899

DEDUCTIONS

Benefits, including tax withheld	12,862,312
Administrative expenses	881,070
Refunds paid	<u>69,185</u>
TOTAL DEDUCTIONS	<u>13,812,567</u>

NET INCREASE 16,643,332

**NET ASSETS HELD IN TRUST FOR
PENSION BENEFITS, BEGINNING OF YEAR**

143,356,395

**NET ASSETS HELD IN TRUST FOR
PENSION BENEFITS, END OF YEAR**

\$ 159,999,727

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

The City of Reading, Pennsylvania (the City) was founded by Thomas and Richard Penn in 1748, established as a borough in 1783 and incorporated as a city on March 26, 1847. The City operates as a home rule/strong mayor form of government and provides all municipal services to its residents. Those services include: public safety (police, fire, and emergency medical services), highways and streets, sanitation, economic development, cultural and recreational, public improvements, planning and zoning, and general administrative services.

The major accounting principles and practices followed by the City are presented below to assist the reader in evaluating the financial statements and the accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting policies of the City conform to generally accepted accounting principles as applicable to governmental units. The more significant policies and practices of the City are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations, including required disclosures of the City's financial activities for the year ended December 31, 2009.

Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units.

The City used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, councils, etc.) within its reporting entity. The criteria used by the City for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the City reviews the applicability of the following criteria. The City is financially accountable for:

- Organizations that make up the legal City entity.
- Legally separate organizations if City officials appoint a voting majority of the organizations' governing body and the City is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City as defined below.

Impose its will - If the City can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization.

Financial benefit or burden - exists if the City (1) is entitled to the organization's resources; (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization; or (3) is obligated in some manner for the debt of the organization.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issued bonded debt without approval by the City.

Based on the foregoing criteria, the reporting entity has been defined to include all criteria for which the City is financially accountable or for which there is another significant relationship. Specific information on the nature of the various potential component units and a description of how the aforementioned criteria have been considered in determining whether or not to include or exclude such units in the City's financial statements are provided in the following paragraphs. Separately published audit reports of the component units, except for the Reading Redevelopment Authority, are available for public inspection in the City's finance office.

Blended Component Units

Some component units, despite being legally separate from the primary government (City), are so intertwined with the primary government that they are, in substance, the same as the primary government and are reported as part of the primary government. The component unit reported in this way is the Reading Area Water Authority.

Reading Area Water Authority - The authority was formed pursuant to the Municipal Authority Act of 1986 for the purpose of providing certain utility services to the residents of the City, through lease of city-owned assets. The five-member board of directors is appointed by the mayor. The Authority's only financial transaction is the operation of the water operations on behalf of the City. The Authority publishes a separate financial statement and is accounted for in the enterprise funds of the City's financial statements.

Discretely Presented Component Units

Component units which are not blended as part of the primary government are discretely presented, which entails reporting component unit financial data in a column separate from the financial data of the primary government. The component units presented in this way are the Reading Parking Authority and the Reading Redevelopment Authority.

Reading Parking Authority - The Authority was incorporated in 1953 under the provisions of the parking authority law. The entire board of directors is appointed by the mayor, and members can be removed from the board at will. The Authority was formed to provide parking facilities to residential and commercial users. The City has agreed to guarantee all of the existing revenue bonds of the Authority.

Reading Redevelopment Authority - The Redevelopment Authority was established pursuant to the Urban Redevelopment Act of 1945 (Public Law-991). The Redevelopment Authority is administered by a five-member board, all of whom are appointed by the mayor. The Authority was established to provide a broad range of urban renewal and maintenance programs within the City, in addition to coordination of efforts to improve the economic vitality, the housing stock and overall living conditions within the City. The Redevelopment Authority operates on a calendar year. The City is presently financing operations of the Redevelopment Authority.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Potential Component Units Excluded

Reading Housing Authority - The Housing Authority was established pursuant to the housing authority law to promote the availability of safe and sanitary dwelling accommodations at affordable rents to families of low income. The Housing Authority is administered by a five-member board, all of whom are appointed by the mayor.

The Housing Authority operates low rent subsidized housing projects established within the City. The Authority manages the acquisition of federal and state funds for the construction and/or improvements to low income properties and reviews programs with the landlords to insure compliance with various rules and regulations. The City has no financial accountability over the Authority's operations.

The Housing Authority operates and reports on a fiscal year ending March 31.

School Board and Other Entities

The reporting entity excludes the Reading School District and Reading Area Community College (RACC), both of which operate within the City's geographic boundaries. The School District is a governmental unit with its own elected governing body, and RACC is governed by a board of trustees whose members are appointed by the County of Berks.

Related Organizations

The City Council and mayor are also responsible for appointing the members of several boards, but the City's accountability for these organizations does not extend beyond making appointments. These boards include:

Stadium Commission
Plumbing Board of Examiners
Heating Board of Examiners
Vacant Property Review Committee
Board of Historical and Architectural Review
Board of Health
Electricians Examining Board

The amounts the City appropriated to these organizations during the year ended December 31, 2009, were immaterial to the basic financial statements taken as a whole.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Government-Wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole excluding activities such as employee pension plans. The primary government and component unit are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end along with the discretely presented component units. The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds and are designed to present financial information at a more detailed level. The focus of governmental and proprietary statements is on major funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Pension trust funds recognize employer and participant contributions in the period in which contributions are due and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, hotel/motel taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Allocation of Indirect Expenses

The City allocates indirect expenses primarily comprised of central governmental services to operating functions and programs benefiting from those services. Central services include overall City management, centralized budgetary formulation and oversight, accounting, financial reporting, payroll, procurement contracting and oversight, investing and cash management, personnel services, and other central administrative services. Allocations are charged to programs based on use of central services determined by various allocation methodologies. These charges are separately reported in the statement of activities. As a matter of policy, certain functions that use significant central services are not charged for the use of these services. These functions or programs include police, fire, and certain divisions within public services and parks.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts, which include its assets, liabilities, fund equity, revenues and expenses or expenditures as appropriate. Resources are allocated to and accounted for in the individual funds based on the purposes for which they are to be spent.

The three types of funds presented in this report are as follows:

GOVERNMENTAL FUND TYPES - These fund types are used to account for most of the existing governmental functions. The focus is on determination of the financial position and changes in financial position (current financial resources) rather than income determination. The following are major governmental funds:

General Fund: This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

Community Development (Special Revenue Fund): This fund was established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Projects Funds: These funds are established to account for major capital expenditures not financed by Enterprise Funds, Internal Service Funds, or Trust Funds.

Debt Service Funds: These funds are established for the purpose of accumulating resources for the payment of interest and principal on long-term general obligation debt other than those payable from Enterprise Funds. The Debt Service Fund also holds notes receivable from other governments for funds advanced from long-term debt. These receivables are offset by deferred revenue to reflect future use of funds received to repay outstanding debt of the City.

PROPRIETARY FUND TYPES - These funds account for operations that are organized to be self-supporting through user charges. The funds included in this category are the Enterprise Funds and Internal Service Funds.

Enterprise Funds: (Water Fund and Sewer Fund are major funds). These funds are maintained to account for activities that are financed and operated in a manner similar to private business, with the intent that the costs (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered, primarily through user charges.

Internal Service Funds: Internal Service Funds (Self-Insurance) are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other Governments on a cost-reimbursement basis.

FIDUCIARY FUND TYPES - These funds account for assets held by the City in a trustee capacity or as agent for individuals, other governments and other funds. These funds are as follows:

Pension Trust Funds: These funds were established to provide pension benefits for City employees. The principal revenue source for these funds is employer and employee contributions (includes Police, Fire, and Officers and Employees Trust Funds).

Agency Funds: These funds are the Earned Income Tax Collectors' funds, which accounts for funds held in escrow for the City and other parties.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated Absences - The City allows employees to accumulate sick leave based on contractual agreements. Police accumulate a maximum of 30 days; firemen accumulate a maximum of 105 days; nonuniformed employees accumulate a maximum of 45 days of sick leave. Upon termination, police are paid their accumulated sick leave at their hourly rate. Firemen and nonuniformed employees, upon retirement only, are paid at the rate of \$30 per day and \$20 per day, respectively, for accumulated sick leave. Earned vacation time is generally required to be used within one year of accrual. Additionally, all employees are permitted to accrue compensatory time, paid at their standard hourly rate upon termination.

Compensated absences are reported as accrued on the government-wide, proprietary and component unit financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and are included in wages and benefits payable.

Cash and Cash Equivalents - The City's reporting entity considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents. Exceptions include the three pension funds which classify cash as cash equivalents in order to appropriately report investment activity.

Investments - For funds other than Pension Trust Funds, State law allows the City to invest in obligations of the United States of America, the Commonwealth of Pennsylvania or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the City to invest in certificates of deposit of banks, savings and loan associations and savings banks both within and outside the Commonwealth of Pennsylvania provided such amounts are insured by the FDIC or other like insurance and that deposits in excess of such insurance are collateralized by the depository. The State also imposes limitations with respect to the amount of investments in certificates of deposit to the extent that such deposits may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan association's or savings bank's net assets.

The City may also invest in shares of registered investment companies, provided that investments of such companies are in authorized investments as noted above.

The law provides that the City's Pension Trust Funds may be invested in any form or type of investment or financial instrument when determined by the City to be prudent.

Temporary cash investments and investments for all funds, except the Pension Trust Funds, are stated at market value. Investments of the Pension Trust Funds are stated at fair value, in accordance with the provisions of Statement 25 of the Governmental Accounting Standards Board.

Receivables/Payables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund receivables/payables." Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventories - On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

Inventories of the governmental funds, consisting principally of expendable supplies, are recorded under the purchase method. Inventories are recorded as expenditures when purchased.

Inventories of the enterprise funds are carried at the lower of cost or market, using the first-in, first-out method.

Prepaid Expenses - In both the government-wide and fund financial statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived.

Capital Assets, Depreciation and Amortization - The City's property, plant and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective financial statements. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

The City generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	10 - 40
Machinery and equipment	3 - 25
Improvements	5 - 75
Infrastructure	30 - 50

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

Long-Term Debt, Deferred Debt Expense, and Bond Discounts/Premiums - In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Balances - Reserves are those portions of fund balance that are not appropriate for expenditure or legally segregated for a specific future use.

Designated fund balances are established to indicate tentative plans for future financial resource utilization.

Property Taxes - Significant dates on the City's property tax calendar are as follows:

Levy and lien date	January 15
Due dates	By April 30 with 2% discount; by June 30 at face value; and thereafter with 10% penalty

Transfers - Operating transfers between fund types are reported as other financing sources (uses) in each respective fund. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers.

Revenue from State and Federal Sources - Revenues from federal and state agencies designated for payment of specific City expenditures are recognized in the government-wide and fund statement when the related expenditures are incurred. Any excess of revenues or expenditures at the fiscal year-end is recorded as deferred revenue or a receivable, respectively.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data - The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

During September, City department heads are required to submit requested operating budgets to the City Manager for the fiscal year commencing the following January 1. The budgets submitted include proposed expenditures along with a narrative justification for such expenditures. Budgets, as submitted, are subject to a detailed review by the Finance Director and City Manager. This review process, which continues through November, includes meetings with the City Council, comparisons with prior year's spending patterns, and forecasting of future needs.

As required by the Home Rule Charter, the proposed budget is made available for public inspection for at least thirty days prior to the date of adoption, with adoption required by December 31. Subsequent to the budget approval, the City Council adopts the appropriation measures required to put the budget into effect and fix the rate of taxation.

Within 31 days subsequent to the legal adoption of the budget, the Finance Director files a copy of the budget with the Department of Community and Economic Development of the Commonwealth of Pennsylvania. Should supplemental budget appropriations be required, the City Council may, within statutory limitations, authorize the transfer of funds between line items by means of a resolution approved at a regularly scheduled Council meeting. Expenditures may not legally exceed budgeted amounts at the line item level.

Annual budgets providing comprehensive appropriations are legally adopted for all Governmental Funds except the Community Development Fund and General Agency Fund, which are both Special Revenue Funds, and the Capital Projects Funds. Budgets are adopted on a modified accrual basis; accordingly, revenues are reported when susceptible to accrual and expenditures are recorded when incurred.

Appropriations in Governmental Funds are encumbered upon issuance of purchase orders, contracts or other forms of legal commitment. Even though goods and services have not been received, the transactions are accounted for as a reservation of fund balances in the year the commitment is made. While appropriations lapse at the end of the year, encumbrances outstanding are reported as reservations of fund balance for subsequent expenditures.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures over Appropriations

For the year ended December 31, 2009, expenditures exceeded appropriations in the general operating fund. The excess expenditures were funded by interfund loans from a proprietary fund.

Net Asset Deficit and Liquidity

As of December 31, 2009, the City, in its statement of assets, shows a total net deficit of \$24,997,149. A structural imbalance had been growing over years as a result of demographic shifts of residents and businesses, non-profit legislation and a stagnant taxation authority for the City which has led to this deficit. The largest components of the unrestricted deficit are principally the general obligation debt to meet funding requirements to the Pension Fund, borrowings to finance economic development efforts, maintenance, and equipment expenditures on City infrastructure. The City's debt service expenditures in its governmental funds were \$7,621,434, 9.6% of its total expenditures, and the City used 26.7% of its current tax revenues to finance debt service requirements.

In October, 2009, the City sought municipal self-help as a "financially distressed" municipality under the Municipalities Financial Recovery Act (Act 47) of the Commonwealth of Pennsylvania. The Act 47 coordinators appointed by the Commonwealth issued their five-year recovery plan, which was originally adopted by the City Council on June 11, 2010. During 2009, the City continued efforts to control costs, improve collections, and maintain solvency. The cash balance available for general operations of the City as of December 31, 2009 was (\$1,311,162). In order to pay current obligations until tax revenues were received, the City issued a tax and revenue anticipation note in January, 2010 for \$6,200,000. This was sufficient to maintain normal functions of the City. Currently, the Act 47 coordinators will provide continued oversight to ensure compliance with the operating budget and the approved five-year plan.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City's investment authority for all funds, except Fiduciary Funds, is set by state statute to include: U.S. Treasury Bills, short-term U.S. Government or Agency obligations, deposits in savings accounts, time deposits or share accounts, obligations of the United States or any of its agencies or instrumentalities, obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities and shares of any investment company which invests only in the above or certificates of deposit. Pursuant to Act 72 of the Pennsylvania State Legislature, a depository must pledge assets to secure state and municipal deposits. The pledged assets must at least be equal to the total amount of such assets required to secure all of the public deposits at the depository and may be on a pooled basis. Additionally, all such pledged assets must be delivered to a legal custodian.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Cash

Custodial Credit Risk - Deposit

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As of December 31, 2009, the carrying amount of the City's deposits was \$39,689,857 and the bank balance was \$42,599,040. Of the balance, \$2,017,516 was covered by federal depository insurance and \$40,581,524 was exposed to custodial credit risk.

Investments

As of December 31, 2009, the City had the following nonpension investments:

Investment Type	Fair Market Value	Investment Maturities from December 31, 2009			
		0-3 Years	4-7 Years	8-10 Years	11 plus Years
Federal Home Loan Bk	\$ 451,946	\$ 153,446	\$ 298,500	\$ -	\$ -
Federal Home Loan Mtg Corp	974,925	335,294	639,631	-	-
Federal Farm Credit Bk	148,734	-	148,734	-	-
Federal Natl Mtg Assn	852,779	852,779	-	-	-
US Treasury Nts	995,657	515,410	480,247	-	-
US Treasury Bds	33,791	-	-	33,791	-
	3,457,832	<u>\$1,856,929</u>	<u>\$1,567,112</u>	<u>\$ 33,791</u>	<u>\$ -</u>
Money Market Funds	3,506,247				
Pooled Cash	386,360				
Certificates of Deposits	<u>332,364</u>				
	<u>\$ 7,682,803</u>				

Interest Rate Risk

The City does have a formal investment policy that limits maturities in certain investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Credit Risk

The City does have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2009, the City's investments were rated as:

<u>Investments</u>	<u>Standard & Poor's (Moody's & Fitch)</u>
Federal Home Loan Bk	AAA
Federal Home Loan Mtg Corp	AAA
Federal Farm Credit Bk	AAA
Federal Natl Mtg Assn	AAA
US Treasury Nts	AAA
US Treasury Bds	AAA

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. More than 5 percent of the City's investments are in the General Fund, Capital Projects Fund, Proprietary Funds (Internal Service), and Fiduciary Funds (Earned Income Tax). These investments are 8.4%, 11.1%, 44.1%, and 30.6%, respectively, of the City's total investments. More than 5% of the City's total governmental funds include the General Fund, Capital Projects and Nonmajor Funds (Agency), at 37.5%, 49.4% and 13.1%, respectively. In the business-type activities, more than 5% of the investments are in the Proprietary Funds (Internal Service). These investments are 93.9% of total business-type investments.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. As of December 31, 2009, the carrying amount of the City's investments was \$7,682,803. Of the balance, \$100,572 was covered by federal depository insurance, \$386,360 was invested in pooled funds, and \$7,195,871 was exposed to custodial credit risk.

Pension Trust Fund

The pension trust funds' investments are held separately from those of other City funds. Assets in the pension trust funds are stated at fair value. Any premiums or discounts are recognized as a gain or loss upon disposition. The City maintains investment policies that summarize the investment philosophy of the City and establishes investment guidelines and performance objectives for the Police, the paid Firemen and City Officers and Employees' Pension Funds.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

As of December 31, 2009, the City had the following cash and investments in its pension trust funds:

<u>Police</u>	Fair Market Value	Investment Maturities from December 31, 2009			
		Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years
Cash or Investment Type					
Corporate Bonds	\$ 7,675,272	\$ -	\$ 4,666,277	\$ 2,629,071	\$ 379,924
Government Bonds	10,975,479	-	8,081,671	2,158,475	735,333
Mortgage Backed Securities	80,305	80,305	-	-	-
Foreign Bonds	1,536,521	-	1,088,306	434,882	13,333
Gov't Asset Backed Securities	4,419,780	-	-	-	4,419,780
Total Debt Securities	24,687,357	<u>\$ 80,305</u>	<u>\$ 13,836,254</u>	<u>\$ 5,222,428</u>	<u>\$ 5,548,370</u>
Cash and Cash Equivalents	2,910,865				
Equity Mutual Funds	41,906,181				
Total Cash and Investments	<u>\$ 69,504,403</u>				

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Pension Trust Fund - continued

<u>Paid Firemen</u>	Fair Market Value	Investment Maturities from December 31, 2009		
		0 - 5 years	5 - 10 years	More than 10 years
Cash or Investment Type				
Asset Backed	\$ 8,986	\$ 8,986	\$ -	\$ -
Corporate Bonds	4,482,323	2,302,666	1,720,430	459,227
Collateralized Mortgage Obligations	33,782			33,782
Foreign Bonds and Notes	871,045	609,483	207,673	53,890
Agency	430,101	417,923		12,178
Mortgage Backed	1,870,477	21,204	510,514	1,338,759
Other	1,806,131	1,806,131		
Treasuries - Notes and Bonds	4,545,893	2,307,326	1,902,781	335,785
Total Debt Securities	14,048,738	<u>\$ 7,473,719</u>	<u>\$ 4,341,398</u>	<u>\$ 2,233,621</u>
Cash and Cash Equivalents	226,880			
Equity Mutual Funds	23,849,500			
Due to Brokers	(562,808)			
Total Cash and Investments	\$ 37,562,310			
		Fair Market Value		
<u>Officers & Employees</u>				
Cash and Cash Equivalents	\$ 20,219			
Fixed Funds	16,808,750			
Equity Funds	27,990,355			
Total Cash and Investments	\$ 44,819,324			

Credit Risk

The risk that an issuer or other counterparty to an investment will not fulfill its obligation is called credit risk. The pension trust funds have no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2009, the pension trust funds' investment in corporate bonds ranged from AAA to BBB.

Investments held in mutual funds are not subject to audit risk.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the pension trust funds will not be able to recover the value of their deposits or investments or collateral securities that are in the possession of an outside entity. The pension trust funds do not have a formal deposit or investment policy for custodial credit risk. As of December 31, 2009, \$250,000 was covered by federal depository insurance and \$151,886,037 was exposed to custodial credit risk.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. There were no investments in any pension plan that constituted more than 5% of any of the pension plan net assets available for benefits at December 31, 2009. In addition, the plans did not have any investment transactions with related parties during the year.

Interest Rate Risk

The pension trust funds do not have a formal deposit or investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Component Unit (Reading Parking Authority)

Cash is carried at cost and investments are carried at market. Cash and investments consist of the following at December 31, 2009:

Unrestricted	
Deposits	\$ 3,362,107
Petty cash	12,679
	<u>\$ 3,374,786</u>
Restricted	
Deposits	\$ 1,698,821
Investments	3,232,633
	<u>\$ 4,931,454</u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of December 31, 2009, the carrying amount of the Authority's deposits was \$5,060,928 and the bank balance was \$5,144,623. As of December 31, 2009, \$501,092 was covered by federal depository insurance and \$4,643,531 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository agent was not in the Authority's name.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Investments

The Authority is permitted to invest funds in:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities back by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approval collateral as provided by law therefore, shall be pledged by the depository.

As of December 31, 2009, the Authority had the following investments:

US Government Issues

	<u>Maturities</u>	<u>Fair Value</u>
Resolution FDG Corp Fed 0% Cpn Strips	4 months - 12 years	\$ 1,423,746
U.S. Treasury Strips	12 years	<u>1,808,887</u>
		<u>\$ 3,232,633</u>

Interest Rate Risk

The Authority does not have a formal investment policy that limits maturities in certain investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Authority does not have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2009, the Authority's investments were all rated as AAA by a nationally recognized rating organization.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer. 44.0% of the Authority's investments are U.S. Treasury Strips and 56.0% are Resolution FDG Corp Fed 0% Cpn Strips for the year ended December 31, 2009.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Component Unit (Reading Redevelopment Authority)

The carrying amount of the Authority's cash and cash equivalents as of December 31, 2009 was \$54,422 and the bank balance was \$60,675.

The Authority has funds invested with the Commonwealth of Pennsylvania's INVEST Program with a market value of \$1,755,417. The INVEST Program is an investment pool designed for local government and nonprofit groups. The INVEST Program funds are managed by the Pennsylvania Department of Treasury. The INVEST Programs authorized investments are limited to Federal Obligations, Repurchase Agreements with bank or nonbank financial institutions, and other debt instruments of banks, financial institutions and nonfinancial institutions that are authorized for the shareholder by Commonwealth of Pennsylvania statute

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of December 31, 2009, all of the bank balances were covered by FDIC insurance.

Interest Rate Risk

The Authority does not have a formal investment policy that limits maturities in certain investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Enterprise Receivables, Uncollectible Accounts and Deferred Revenue

Significant receivables include amounts due from customers primarily for utility services. These receivables are all due. An allowance for uncollectible accounts is estimated using accounts receivable more than 60 to 90 days depending on the fund. Related amounts are shown in the following table:

	<u>Major Enterprise</u>		<u>Other Enterprise (Recycling)</u>	<u>Total Primary Government</u>	<u>Component Units</u>	
	<u>Water</u>	<u>Sewer</u>			<u>Reading Parking Authority</u>	<u>Reading Redevelopment Authority</u>
Accounts receivable, gross	\$ 4,366,351	\$ 4,275,278	\$ 3,423,156	\$ 12,064,785	\$ 286,006	\$ 40,333
Less: allowance uncollectible accounts	<u>2,079,125</u>	<u>1,701,102</u>	<u>1,925,269</u>	<u>5,705,496</u>	<u>-</u>	<u>-</u>
Net accounts receivable	<u>\$ 2,287,226</u>	<u>\$ 2,574,176</u>	<u>\$ 1,497,887</u>	<u>\$ 6,359,289</u>	<u>\$ 286,006</u>	<u>\$ 40,333</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

**NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE -
CONTINUED**

Governmental Receivables, Uncollectible Accounts and Deferred Revenue

Property taxes are levied annually on January 15. Major payments are received January through June 30. Thereafter, taxes collected include a 10% penalty. Lien dates for taxes due is January 15 the following year.

Governmental funds also include significant loans receivable for economic development loans which are collectible in future years.

In the government-wide financial statements, receivables are recorded net of an allowance for uncollectible accounts regardless of when cash will be received. In the fund financial statements, the net amount of property taxes collectible which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements.

NOTE 5 - RESTRICTED ASSETS - LIMITED AS TO USE

Pursuant to an Indenture of Trust agreed to by the Redevelopment Fund, blended and discretely presented component units, or by law, the following restricted cash and investments are held at December 31, 2009:

	Primary Government			Component Units	
	City of Reading Sewer Fund	Reading Area Water Authority	Total	Reading Parking Authority	Reading Redevelopment Authority
Construction Account	\$ 16,494,028	\$ 15,725,144	\$ 32,219,172	\$ 5,561	\$ 8,950
Debt Service Account	-	334,296	334,296	3	4
Debt Service Reserve Account	-	4,065,061	4,065,061	4,924,798	-
Clearing Account	-	10,177	10,177	-	28
Other	-	164,924	164,924	1,092	732
Total	<u>\$ 16,494,028</u>	<u>\$ 20,299,602</u>	<u>\$ 36,793,630</u>	<u>\$ 4,931,454</u>	<u>\$ 9,714</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 280,960	\$ -	\$ -	\$ 280,960
Construction in progress	<u>4,111,736</u>	<u>1,432,043</u>	<u>(775,576)</u>	<u>4,768,203</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	4,392,696	1,432,043	(775,576)	5,049,163
Capital assets being depreciated:				
Buildings	28,462,920	-	-	28,462,920
Machinery and equipment	31,526,431	932,778	-	32,459,209
Improvements	13,787,690	927,854	-	14,715,544
Infrastructure	<u>5,213,266</u>	<u>-</u>	<u>-</u>	<u>5,213,266</u>
Totals at historical cost	78,990,307	1,860,632	-	80,850,939
Less accumulated depreciation for:				
Buildings	13,420,798	608,673	-	14,029,471
Machinery and equipment	22,566,659	1,843,064	-	24,409,723
Improvements	3,142,674	567,877	-	3,710,551
Infrastructure	<u>2,808,992</u>	<u>160,380</u>	<u>-</u>	<u>2,969,372</u>
Total accumulated depreciation	<u>41,939,123</u>	<u>3,179,994</u>	<u>-</u>	<u>45,119,117</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>37,051,184</u>	<u>(1,319,362)</u>	<u>-</u>	<u>35,731,822</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 41,443,880</u>	<u>\$ 112,681</u>	<u>\$ (775,576)</u>	<u>\$ 40,780,985</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 6 - CAPITAL ASSETS - CONTINUED

	Beginning Balance	Increase	Decrease	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 2,074,359	\$ -	\$ -	\$ 2,074,359
Construction in progress	6,793,344	16,129,480	(24,381)	22,898,443
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	8,867,703	16,129,480	(24,381)	24,972,802
Capital assets being depreciated:				
Buildings	46,005,926	-	-	46,005,926
Machinery and equipment	15,413,666	1,342,870	-	16,756,536
Improvements	79,951,975	280,992	-	80,232,967
Totals at historical cost	141,371,567	1,623,862	-	142,995,429
Less accumulated depreciation for:				
Buildings	23,486,667	842,256	-	24,328,923
Machinery and equipment	10,514,863	923,010	-	11,437,873
Improvements	32,646,552	2,380,714	-	35,027,266
Total accumulated depreciation	66,648,082	4,145,980	-	70,794,062
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	74,723,485	(2,522,118)	-	72,201,367
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 83,591,188</u>	<u>\$ 13,607,362</u>	<u>\$ (24,381)</u>	<u>\$ 97,174,169</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 6 - CAPITAL ASSETS - CONTINUED

	Beginning Balance	Increase	Decrease	Ending Balance
Component Unit - Reading Parking Authority				
Capital assets not being depreciated:				
Land	\$ 2,435,545	\$ 178,525	\$ -	\$ 2,614,070
Construction in progress	331,218	7,308,189	-	7,639,407
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	2,766,763	7,486,714	-	10,253,477
Capital assets being depreciated:				
Buildings	46,068,141	-	(16,947)	46,051,194
Machinery and equipment	1,409,074	219,007	-	1,628,081
Improvements	144,620	-	-	144,620
Totals at historical cost	47,621,835	219,007	(16,947)	47,823,895
Less accumulated depreciation for:				
Buildings	16,719,262	1,148,427	-	17,867,689
Machinery and equipment	989,607	97,434	-	1,087,041
Improvements	110,446	2,749	-	113,195
Total accumulated depreciation	17,819,315	1,248,610	-	19,067,925
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	29,802,520	(1,029,603)	(16,947)	28,755,970
COMPONENT UNIT, CAPITAL ASSETS, NET	<u>\$32,569,283</u>	<u>\$ 6,457,111</u>	<u>\$ (16,947)</u>	<u>\$ 39,009,447</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General government	\$ 1,284,348	Water system	\$ 1,924,056
Public safety:		Sewer system	2,163,058
Police	537,476	Recycling	58,866
Fire	457,850		
Public works - highway/streets	189,958		<u>\$ 4,145,980</u>
Community development	198,758		
Culture and recreation	511,604		
	<u>\$ 3,179,994</u>		

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivables and payables balances for the following accounts at December 31, 2009:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Activities		
Major Funds		
General	\$ 11,383,380	\$ 17,035,566 *
Community Development	250,895	2,136,883
Capital Projects	2,669,595	54,432
Debt Service	158,658	-
Nonmajor Governmental Funds	399,614	2,600,986
Internal Service	1,826,747	2,817,338
Business-Type Activities		
Major Funds		
Water	5,730,786	7,979,312
Sewer	12,934,049	4,963,003 *
Nonmajor Proprietary Funds	342,332	2,713,688
	<u>35,696,056</u>	<u>40,301,208</u>
 Fiduciary and Agency Funds	 <u>4,999,597</u>	 <u>394,445</u>
	<u><u>\$ 40,695,653</u></u>	<u><u>\$ 40,695,653</u></u>

* Portion not expected to be repaid in the current year.

Interfund receivables and payables are a result of necessary borrowings to cover cash flow needs. At this time, the payable in the general fund is not expected to be repaid in the current year due to financial difficulties.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS - CONTINUED

The City had operating transfers in and out for the following amounts at December 31, 2009:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Governmental Activities		
Major Funds:		
General	\$ 7,276,124	\$ 9,534,984
Capital Projects	7,411,523	-
Internal Service Funds	3,476,071	-
Business-Type Activities		
Water	-	4,589,284
Sewer	-	4,039,450
	<u>\$ 18,163,718</u>	<u>\$ 18,163,718</u>

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis.

NOTE 8 - LIABILITIES

In January 2009, the City issued tax and revenue anticipation notes in the amount of \$3,000,000, which included interest at 30 day LIBOR plus 213 basis points. The notes were repaid in 2009.

<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at End of Year</u>
\$ -	\$ 3,000,000	\$ 3,000,000	\$ -

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 8 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Governmental Activities					
<u>Bonds Payable and Other Long-Term Liabilities</u>					
General Obligation Bonds, Series of 2002, (Capital Appreciation Bonds) with 2.75% - 5.75% interest payable through 2019. Proceeds of the bonds were used to finance capital project and bond issuance costs.	\$ 25,265,000		\$ 575,000	\$ 24,690,000	\$ 590,000
General Obligation Note, Series of 2005, 3.0% - 3.75% interest payable through 2019. Proceeds of the notes were used to advance refund the General Obligation Bonds, Second Series of 1998. The note was advance refunded in 2008.	2,570,000	-	-	2,570,000	-
Federally Taxable General Obligation Bonds, Series of 2006, 4.85% - 5.42% interest payable through 2031. Proceeds of the notes were used to fund the City's unfunded pension fund actuarial accrued liabilities. A portion of the bonds were advance refunded in 2008.	32,905,000	-	-	32,905,000	-
Line of Credit General Obligation Note, Series of 2006 with a maximum principal amount of \$8,000,000 to be drawn, 7% interest payable through 2029. Proceeds of the note were used to fund capital improvements. Bond was Currently refunded in 2009.	7,995,000	-	7,995,000	-	-
General Obligation Bonds, Series of 2008, with 2.5% - 6.25% interest payable through 2033. Proceeds of the bonds were used to currently refund a portion of the General Obligation Note Series A of 2006, terminate a forward fixed payer swap, fund various capital projects, and pay bond issuance costs.	13,575,449	-	337,906	13,237,543	309,746
General Obligation Bonds, Series of A of 2008, 4.46% interest payable through 2018. Proceeds were used to currently refund the Washington County Authority lease revenue bonds and pay bond issuance costs.	5,210,000	-	425,000	4,785,000	445,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 8 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Governmental Activities					
<u>Bonds Payable and Other Long-Term Liabilities - continued:</u>					
General Obligation Bonds, Series of B of 2008, 3.17% interest payable through 2010. Proceeds were used to currently refund the York General Authority revenue bonds and pay bond issuance costs.	942,570	-	492,550	450,020	450,020
General Obligation Bonds, Series of C, D & E of 2008, variable interest payable through 2033. Proceeds were used to advance refund a portion of the Federally Taxable General Obligation Bonds Series of 2006, a portion of the General Obligation Notes Series of 2005, all of the outstanding General Obligation Bonds Series of 2002, and pay bond issuance costs.	40,941,896	-	230,000	40,711,896	91,200
Tax and Revenue Anticipation Line of Credit of 2009, variable interest at 30 day LIBOR plus 213 basis points. Proceeds were used to provide working capital in advance of collection of revenues and taxes. The note was satisfied in full in December 2009.	-	3,000,000	3,000,000	-	-
General Obligation Bonds, Series of 2009, with 3.0% - 5.0% interest payable through 2029. Proceeds were used to currently refund a the General obligation Line of Credit of 2006, fund various capital projects of the City, fund the termination payment for fixed payer swap and pay bond issuance costs.	-	25,000,000	-	25,000,000	-
Federally Taxable Guaranteed Lease Revenue Notes, Series of 2006 (Redevelopment Authority) with 6.10% interest payable through 2026. Proceeds used to finance the City's 2006 pension costs.	6,141,886	-	193,646	5,948,240	205,810
Capital lease payable to the Redevelopment Authority with 2.5% - 4.25% interest payable through 2033. Proceeds used to finance construction of public waste facility.	3,710,000	-	95,000	3,615,000	100,000
Compensated absences	1,067,505	9,899	-	1,077,404	-
TOTAL	140,324,306	28,009,899	13,344,102	154,990,103	2,191,776
Less: unamortized interest on Capital Appreciation Bonds	(8,109,901)	-	(984,266)	(7,125,635)	(22,972)
Total Governmental Activities	\$ 132,214,405	\$ 28,009,899	\$ (12,359,836)	\$ 147,864,468	\$ 2,168,804

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 8 - LIABILITIES - CONTINUED

Business-Type Activities Bonds and Notes Payable	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Note payable to Pennsylvania Infrastructure Investment Authority with interest at 1% payable through 2012.	4,065,603	-	1,309,308	2,756,295	1,322,462
General Obligation Bonds, Series of 2008, with 2.5% - 6.25% interest payable through 2033. Proceeds of the bonds were used to currently refund a portion of the General Obligation Note Series A of 2006, terminate a forward fixed payer swap, fund various capital projects, and pay bond issuance costs.	32,224,551	-	802,096	31,422,455	735,254
General Obligation Bonds, Series of B of 2008, 3.17% interest payable through 2010. Proceeds were used to currently refund the York General Authority revenue bonds and pay bond issuance costs.	5,706,430	-	2,814,450	2,891,980	2,891,980
General Obligation Bonds, Series of C, D & E of 2008, variable interest payable through 2033. Proceeds were used to advance refund a portion of the Federally Taxable General Obligation Bonds Series of 2006, a portion of the General Obligation Notes Series of 2005, all of the outstanding General Obligation Bonds Series of 2002, and pay bond issuance costs.	9,958,103	-	70,000	9,888,103	23,800
Note payable to bank with interest at a variable rate (0.9765% at December 31, 2003). Interest and principal payments due quarterly through 2011.	201,792	-	87,156	114,636	91,541
Note payable to Pennsylvania Infrastructure Investment Authority, 3.2% - 4% interest payable through 2018.	1,667,197	-	157,082	1,510,115	163,475

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 8 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Business-Type Activities					
<u>Bonds and Notes Payable - continued</u>					
Guaranteed Water Revenue Bonds, Series of 2002, 1.4% - 4.4% interest payable through 2017.	2,065,000	-	195,000	1,870,000	205,000
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), 3.60% - 4.62% interest payable through 2020.	21,080,000	-	-	21,080,000	-
Guaranteed Water Revenue Bonds, Series of 2007, 4.25% - 5% interest payable through 2027.	25,000,000	-	-	25,000,000	-
	101,968,676	-	5,435,092	96,533,584	5,433,512
Less: unamortized interest on Capital Appreciation Bonds	(6,071,438)	-	(634,060)	(5,437,378)	-
TOTAL	\$ 95,897,238	\$ -	\$ 4,801,032	\$ 91,096,206	\$ 5,433,512
Component Unit - Reading Redevelopment Authority					
<u>Long Term Liabilities</u>					
Guaranteed Lease Revenue Bonds, Series of 2003 (Redevelopment Authority) with 2.50% - 4.25% interest payable through 2033. Proceeds used to finance construction of public works facility. There is a lease receivable from the City to fund the repayment of this issue.	\$ 3,710,000	\$ -	\$ 95,000	\$ 3,615,000	\$ 100,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 8 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Component Unit - Reading Parking Authority: Bonds Payable and Other Long-Term Liabilities					
Guaranteed Authority Revenue Bonds, Series of 1993. The bonds were current interest and capital appreciation bonds (CAB). In 2003, \$9,550,000 of remaining current interest bonds were refunded. The remaining CABs have imputed interest of 5.85% to 6.10%. Final payment is due in 2020.	33,085,000	-	2,755,000	30,330,000	2,760,000
Guaranteed Parking Revenue note payable to a local bank for \$1,570,000. \$44,250 was drawn on the note as of December 31, 2006, and the balance was drawn as needed to pay construction expenses. The note is 3.9% per annum through 2014, and repayment is in 2024.	1,570,000	-	-	1,570,000	-
Guaranteed Parking Revenue note payable to a local bank for \$10,000,000. \$75,000 was drawn on the note as of December 31, 2004, and the balance was drawn as needed to pay construction expenses. The note is 3.9% per annum through 2018, and repayment is in 2024.	9,845,000	-	90,000	9,755,000	90,000
Guaranteed Parking Revenue note payable to a local bank for \$8,635,000. \$70,000 was drawn on the note as of December 31, 2008, and the balance will be drawn as needed to pay construction expenses. The note is 4.68% through 2015, and repayment begins in 2010. *	70,000	-	70,000	-	-
Loans payable to City of Reading, one of \$375,000 bearing interest at 6.02% with 26 annual payments of \$28,316, including interest and one for \$800,000 noninterest bearing in 30 annual payments of \$26,667. Payment only made when cash flow is available. *	800,000	-	800,000	-	-

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 8 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Component Unit - Reading Parking Authority <u>Bonds Payable and Other Long-Term Liabilities - continued:</u>					
Capital lease with the City of Reading, whereby the Authority will pay an amount to the City for a term of years coinciding with the Pooled Capital Program of the Washington County Authority. During 2009, the Authority satisfied the debt in full.	1,029,196	-	1,029,196	-	-
Note payable to City of Reading which is noninterest bearing with annual principal payments of \$1,000 through 2074. Balance was paid in full during 2009.	68,221	-	68,221	-	-
Build America Bond to be drawn on as needed to pay construction expenses relating to the 700 Penn Street project. Repayments of the note begin in 2010 in varying amounts. Interest is at a taxable fixed rate of 6.30% through November 15, 2009 and thereafter at an interest rate equal to the LIBOR rate plus 1.75% through 2026.	-	3,318,000	-	3,318,000	5,000
Grant Anticipation Note - Series of 2009, note for \$6,000,000. \$30,000 was drawn on the note as of December 31, 2009 to cover issuance costs and the balance will be drawn on as needed to pay construction expenses relating to costs for the construction of a new garage. The note is 4.25% per annum, and repayment is in 2012.	-	30,000	-	30,000	-
Capital lease with the Reading Redevelopment Authority, whereby the Authority will pay \$1,667 monthly to the RRA for a term of 25 years for a parcel of land at 2nd & Washington Streets.	288,383	-	6,908	281,475	7,231
	46,755,800	-	4,819,324	45,284,475	2,862,231
Less: unamortized interest on Capital Appreciation Bonds	(9,914,253)	-	(1,379,487)	(8,534,766)	-
Total Long-term Liabilities	<u>\$ 36,841,547</u>	<u>\$ -</u>	<u>\$ 3,439,837</u>	<u>\$ 36,749,709</u>	<u>\$ 2,862,231</u>

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CITY OF READING

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 8 - LIABILITIES - CONTINUED

The annual requirements to pay principal and interest on all long-term debt outstanding at December 31, 2009 are as follows:

	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2010	\$ 2,091,776	\$ 5,669,389	\$ 5,433,512	\$ 3,552,306
2011	3,845,575	5,573,589	3,917,134	4,002,381
2012	3,926,537	5,447,110	4,195,130	5,044,519
2013	5,012,369	5,294,840	3,398,914	4,966,354
2014	5,079,741	5,228,477	18,402,943	23,474,351
2015 - 2019	26,949,135	25,827,074	21,876,205	16,650,989
2020 - 2024	28,665,029	22,009,468	23,624,806	7,709,156
2025 - 2029	39,381,489	14,150,229	15,684,940	2,596,575
2030 - 2034	35,346,048	6,243,317	-	-
Less unamortized interest	(7,125,635)	-	-	-
Less capital lease interest	-	-	(5,437,378)	-
	<u>\$ 143,172,064</u>	<u>\$ 95,443,493</u>	<u>\$ 91,096,206</u>	<u>\$ 67,996,631</u>

The Reading Area Water Authority has an unused letter of credit of \$800,000 as of December 31, 2009.

Component Units			
Reading Parking Authority		Reading Redevelopment Authority	
Principal	Interest	Principal	Interest
\$ 2,875,000	\$ 1,025,432	\$ 100,000	\$ 138,589
2,910,000	954,450	100,000	135,964
2,935,000	948,225	105,000	133,339
2,905,000	942,630	110,000	130,504
2,935,000	875,730	110,000	127,479
14,715,000	4,669,889	610,000	581,834
15,905,000	2,383,807	725,000	461,000
223,000	202,277	895,000	299,404
53,333	-	860,000	93,500
(11,860,380)	-	-	-
(171,858)	-	-	-
<u>\$ 33,424,095</u>	<u>\$ 12,002,440</u>	<u>\$ 3,615,000</u>	<u>\$ 2,101,613</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 8 - LIABILITIES - CONTINUED

Defeasance of Debt:

During the year ended December 31, 2008, the City issued variable rate general obligation refunding bonds Series C, D & E of 2008 to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of general obligation bonds Series of 2002, a portion of the general obligation notes Series of 2005, and a portion of the federally taxable general obligation bonds series of 2006. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets.

As of December 31, 2009, outstanding general obligation bonds of the City in the amount of \$35,065,000 were considered defeased with a related \$36,912,859 held in escrow funds.

The City of Reading entered into a master lease agreement for an energy management system which is being treated as an operating lease. Terms of the lease agreement require 28 semi-annual payments beginning March, 2009 through September, 2022. Payments range from \$83,000 to \$119,500 during the term of the lease. Total cost of the system and services is \$2,000,000.

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS

Objective of the Derivative

The City uses derivative financial instruments to manage the risk that changes in interest rates will affect the amount of future interest payments.

Terms, Fair Values and Credit Risk

The terms, including the credit ratings of the outstanding swaps (swaptions) as provided by the counterparty as of December 31, 2009, are included in the following table:

Product Type	Original/ Outstanding Notional	Effective Date	Maturity Date	Underlying Index	Market Value
Not Active SWAPTION	\$ 18,595,000	5/15/2012	11/15/2019	USD/Floating SIFMA swap index+ .30% USD/Fixed 5.097%	\$ (1,251,536)
SWAP	37,940,000	5/1/2009	11/1/2014	USD/Floating - 30 day LIBOR USD/Fixed 4.053%	(2,254,216)

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS - CONTINUED

Market Value

The market values as of December 31, 2009 are included in the table. The market values were estimated by using a calculated mathematical approximation of market value derived from proprietary models as of a given date.

Credit Risk

The City is exposed to credit risk in the amount of the derivatives fair value. At the present time since the swaps have negative values, the City is not exposed to credit risk. The current credit rating of Wachovia Bank, the counterparty, is Aa2, AA and AA- by Moody's, Standard and Poor's and Fitch, respectively.

Basis Risk

Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the counterparty.

Tax Risk

Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g., a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving a percentage of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination Risk

The City or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

During the year, the City terminated one swap for a total cost of \$8,091,000, including the termination fees and consulting costs.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 10 - CITY OF READING RETIREMENT PLANS

Plan Descriptions. The City of Reading has three contributing defined benefit single-employer pension plans covering police, paid firemen, and officers and employees respectively; the City of Reading Police Pension Plan (PPP), the City of Reading Paid Firemen's Pension Plan (PFPP) and the City of Reading Nonuniformed Employees' Pension Plan (NEPP). Each plan provides retirement, disability and death benefits to plan members and beneficiaries. PA Act 205 and City Council ordinance assign the authority to establish and amend benefit provisions to the Board of Trustees of each retirement plan. The Plans are considered part of the City's financial reporting entity and are included in the City's financial statements as Pension Trust Funds.

Funding Policy and Annual Pension Cost. The Board of Trustees of each plan establishes and may amend the contribution requirements of plan members and the City. The City's annual pension cost for the current year and related information for each plan is as follows:

	PPP	PFPP	NEPP
Contribution rates:			
City	Minimum Municipal Obligation under PA Act 205		
Plan members	5% plus \$1 per month	5% plus \$5 per month	3%
Annual pension cost	\$ 2,428,329	\$ 1,346,126	\$ 775,359
Contributions made	2,442,638	1,346,495	806,192

Actuarial methods and assumptions. The following is information as of the most recent actuarial valuation:

	PPP	PFPP	NEPP
Valuation Date	01/01/09	01/01/09	01/01/09
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar, Open	Level Dollar, Closed	Level Dollar, Closed
Remaining Amortization Period	23 Years	14 Years	18 Years
Asset Valuation Method	130% of Market Value	130% of Market Value	130% of Market Value (4 yr Smoothing)
Actuarial Assumptions			
Investment Rate of Return	7.5%	8%	8%
Projected Salary Increases	5%	6%	5%
Includes Inflation - at	-	Included in Rates Above	3%
Cost of Living Adjustment	-	-	-

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

Fiscal Year	Annual Required Contribution	Percentage Contributed
POLICE PENSION FUND		
2007	\$ 3,203,156	33%
2008	1,705,470	100%
2009	2,428,329	100%
FIREMEN'S PENSION FUND		
2007	1,209,423	44%
2008	1,289,485	100%
2009	1,346,126	100%
OFFICERS' AND EMPLOYEES' PENSION FUND		
2007	616,822	0%
2008	598,539	100%
2009	775,359	100%

Funded Status and Funding Progress. The funded status of each plan as of January 1, 2009, the most recent actuarial valuation date is as follows:

	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c)
PPP	\$ 85,324,284	\$ 116,213,452	\$ 30,889,168	73.42 %	\$ 11,349,615	272.16 %
PFPP	49,852,024	56,291,280	6,439,256	88.56	8,018,210	80.31
NEPP	53,650,657	60,800,584	7,149,927	88.24	15,450,113	46.27

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 11 - POST EMPLOYMENT BENEFITS

Plan Description:

The City of Reading sponsors a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides lifetime healthcare and life insurance for eligible retirees and their dependents through the City's health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiation with the City and the unions representing the City's employees. The Retiree Health Plan does not issue a publicly available financial report and the City is implementing GASB Statement 45 prospectively.

Funding Policy:

Contribution requirements also are negotiated between the City and union representatives. The required contribution is based on pay-as-you-go financing. For nonuniform employees retired prior to 2004, the City contributes 100 percent of the cost of the current year premiums for eligible retired plan members and their dependents. For nonuniform employees retired after 2004 to current, the retired plan member pays the retiree contribution rate supplied by the City, and the balance of the remaining premium is paid by the City. For fire department employees, the City contributes 100 percent of the cost of the current year premiums for eligible retired plan members and their dependents. For police department employees retired prior to 2007, the City contributes 100 percent of the cost of the current year premiums for eligible retired plan members and their dependents. For police department employees retired after 2007 to current, the retired plan member pays the retiree contribution rate supplied by the City, and the balance of the remaining premium is paid by the City. For the fiscal year ended December 31, 2009, the City contributed \$1,250,917 to the plan related to retirees.

Annual OPEB Cost and Net OPEB Obligation:

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ 2,587,893
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB Cost	<u>2,587,893</u>
Contributions made	-
Increase in net OPEB obligation	<u>2,587,893</u>
Net OPEB obligation - beginning of year	<u>2,587,894</u>
Net OPEB obligation - end of year	<u><u>\$ 5,175,787</u></u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 11 - POST EMPLOYMENT BENEFITS - CONTINUED

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of December 31, 2009 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2009	\$ 2,587,895	0.0%	\$ 5,175,787

Funded Status and Funding Progress:

As of January 1, 2009, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$26,676,711, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$26,676,711. The covered payroll (annual payroll of active employees covered by the plan) was \$0, and the ratio of the UAAL to the covered payroll was 0.0%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about actuarial value of plan assets and actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10% initially, decreasing 1.0% per year to an ultimate rate of 5% in 2015 and later. The unfunded actuarial accrued liability is being amortized at the end of the year based on level dollar and a thirty year open amortization period.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 12 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the City is subject to various contingent liabilities arising from litigation. The City does not anticipate future losses resulting from these transactions to be material to the City's financial statements, except as disclosed in Note 15.

Under the terms of federal and state grants, periodic audits are required and the allowability of certain costs may be questioned under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes such disallowances, if any, will be immaterial.

The City has in effect three labor agreements, which cover approximately 90% of the total labor force. The collective bargaining agreement with AFSCME - The American Federation of State, County and Municipal Employees expired on December 31, 2007 and an extension was finalized through December 31, 2011. The Reading Lodge #9 Fraternal Order of Police's labor agreement will be in effect through December 31, 2011. The labor agreement with the International Association of Fire Fighters, Local 1803 will be in effect through December 31, 2010.

The City has entered into contracts for capital improvements related to the wastewater treatment plant. At December 31, 2009, the balance of open contracts is \$7,162,695.

The Reading Area Water Authority has entered into several contracts for capital improvements. At December 31, 2009, the balance of open contracts is \$1,855,970.

NOTE 13 - RISK MANAGEMENT AND SELF-INSURANCE

The City is exposed to various risks of losses related to torts; theft, damage, destruction of assets, errors and omissions; injuries to employees, and natural disasters. The City manages these risks through self-insurance and coverage from commercial insurance companies for excess liabilities. The table below outlines the limits and deductibles for these lines of coverage:

		2009	
	Carrier	Limit	Deductible
Property	St. Paul Travelers	\$ 210,436,613	\$ 100,000
Liability	St. Paul Travelers	1,000,000	150,000
Crime	St. Paul Travelers	1,000,000	10,000
Auto Liability	St. Paul Travelers	1,000,000	150,000
Auto Property Damage	St. Paul Travelers	4,507,915	10,000
Excess Liability	St. Paul Travelers	4,000,000	10,000
Law Enforcement	Scottsdale	2,000,000	150,000
Employment Practices	Scottsdale	1,000,000	150,000
Public Officials	Scottsdale	2,000,000	100,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 13 - RISK MANAGEMENT AND SELF-INSURANCE - CONTINUED

The City of Reading is recognized and meets the qualifications of the Pennsylvania Department of Labor and Industry as a Self-Insured Workers' Compensation Employer. As part of the qualifications to maintain self-insured status, the City of Reading purchases excess workers' compensation coverage for police claims that exceed \$1,000,000 and all other claims that exceed \$425,000. This insurance policy is underwritten by Safety National Casualty Corporation. The City also is required to maintain a trust for outstanding liabilities for workers' compensation. That trust is in the amount of \$2,108,090.

Activity of the self-insurance program including liability exposure is accounted for in the Self-Insurance Internal Service Fund (the Fund). The Fund is responsible for collecting interfund premiums, paying claim settlements and purchasing other specified insurance policies. Claims settled and loss expense are accrued in the Fund for estimated reported claims. This fund has a net asset balance of \$120,000 reserved for a sick leave pool.

The City had an actuarial study performed to estimate the workers' compensation liability. Based on past experience, management of the City believes incurred, but not reported claims, to be immaterial and therefore, has not established an accrual for such claims at December 31, 2009. An analysis of claims activity is presented below:

	<u>Beginning of Year Liabilities</u>	<u>Estimated Current Year Claims</u>	<u>Actual Claim Payments</u>	<u>Balance at Fiscal Year End</u>
2009	<u>\$ 2,133,789</u>	<u>\$ 3,476,070</u>	<u>\$ 3,366,616</u>	<u>\$ 2,243,243</u>

Employee Benefit

The City pays premiums for certain employee benefits such as health and life insurance, in accordance with stipulations of collective bargaining agreements. Such expenditures are not accounted for through the self-insurance fund, but rather are allocated to the particular fund that record the related payroll expenditures. Total expense for these employee benefits for the year ended December 31, 2009 was \$10,272,802.

NOTE 14 - FUND EQUITY AND CHANGE IN FUND BALANCES

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of the fund balance accounts are summarized below:

Reserve for capital projects - It includes \$17,574,405, of monies in the Capital Projects Fund for reserved capital project improvements.

Reserve for debt service - The reserve for debt service was created to segregate a portion of the fund balance account for debt service, including both principal payments and interest payments. The reservation was established to satisfy legal restrictions imposed by various bond agreements.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 15 - SETTLEMENTS

NPDES Permit Violations

The City has negotiated a settlement with the U.S. Environmental Protection Agency (EPA) and the Commonwealth of Pennsylvania Department of Environmental Protection (PADEP) regarding alleged violations of the Clean Water Act and the Clean Streams Law. The City is required to pay a total civil penalty of \$239,000 to EPA and PADEP within one year of the date of entry of the consent decree. Additional penalties are stipulated for failure to comply with the terms of the consent decree. Also, the City is required to implement supplemental environmental projects (SEP's) at a minimum cost of \$733,000.

In 2002, an expense and related liability of \$750,000 was recorded in the sewer fund. Most of the projects were completed at December 31, 2008, and the remaining liability of \$80,000 was paid in the year ended December 31, 2009, ending the environmental project.

Litigation Settlement

The City approved settling a federal lawsuit for an amount of \$750,000, payable in three annual installments due December, 2007, 2008 and 2009. The third and final payment was paid for the year ended December 31, 2009, which satisfied the liability.

NOTE 16 - SUBSEQUENT EVENT

In preparing these financial statements, the City has evaluated events and transactions for potential recognition and disclosure through July 19, 2010, the date the financial statements were available to be issued.

In January, 2010, the City issued a line of credit tax and revenue anticipation note for \$6,200,000 as an advance for tax revenues that will be received during the 2009 year. The note will mature on September 30, 2010 and payments will be made throughout the year at an interest rate of 2.63%. Also as noted in Note 2, the City approved the Commonwealth issued five-year recovery plan issued under Act 47.

NOTE 17 - NEW ACCOUNTING STANDARDS

GASB has issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. This statement addresses the recognition and measurement of derivative instruments on the statement of net assets. The City has not yet determined the impact of Statement No. 53 to its financial statements. The City is required to implement this Statement by the year ended December 31, 2010.

The Government Accounting Standards Board ("GASB") has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information and classifies fund balances into the following categories - nonspendable, restricted, committed, assigned and unassigned. The City has not yet determined the impact of Statement No. 54 to its fund balances. The City is required to implement Statement No. 54 by the year ended December 31, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF READING

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended December 31, 2009

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Real estate taxes	\$ 16,180,579	\$ 16,180,579	\$ 15,770,385	\$ (410,194)
Act 511 taxes	15,835,390	15,835,390	12,773,191	(3,062,199)
Licenses, permits and fines	5,607,100	5,607,100	4,320,134	(1,286,966)
Intergovernmental	5,058,500	5,058,500	5,169,791	111,291
Charges for services	8,681,150	8,681,150	6,324,394	(2,356,756)
Interest and rent	5,592,000	5,592,000	997,261	(4,594,739)
Other	2,731,107	4,431,109	6,395,567	1,964,458
TOTAL REVENUES	59,685,826	61,385,828	51,750,723	(9,635,105)
Expenditures:				
Current:				
General government	6,460,855	6,212,796	7,335,633	(1,122,837)
Public safety				
Police	22,859,506	23,217,418	25,758,337	(2,540,919)
Fire	10,810,376	11,173,652	11,257,285	(83,633)
EMS	3,399,217	3,411,438	3,499,535	(88,097)
Public works: highways and streets	1,112,864	1,153,290	1,299,945	(146,655)
Public works: other	6,622,792	6,520,953	6,632,851	(111,898)
Community development	2,271,122	2,274,757	2,294,424	(19,667)
Culture and recreation	1,397,520	1,326,117	1,347,338	(21,221)
Other	4,465,004	4,497,554	1,180,018	3,317,536
Debt service - principal	1,339,196	1,339,196	10,249,100	(8,909,904)
Debt service - interest	5,874,939	5,874,939	5,348,514	526,425
TOTAL EXPENDITURES	66,613,391	67,002,110	76,202,980	(9,200,870)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,927,565)	(5,616,282)	(24,452,257)	(18,835,975)
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	25,000,000	25,000,000
Bond discounts	-	-	(123,038)	(123,038)
Swap termination fees	-	-	(8,091,000)	(8,091,000)
Transfers to component unit			(120,000)	(120,000)
Operating transfers in	7,055,000	7,443,717	7,276,124	(167,593)
Operating transfers out	(1,827,435)	(1,827,435)	(9,534,984)	(7,707,549)
TOTAL OTHER FINANCING SOURCES (USES)	5,227,565	5,616,282	14,407,102	8,790,820
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (1,700,000)	\$ -	(10,045,155)	\$ (10,045,155)
FUND BALANCE, BEGINNING OF YEAR			3,514,002	
FUND BALANCE, END OF YEAR			\$ (6,531,153)	

CITY OF READING

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS - RETIREMENT PLANS

December 31, 2009

I. SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
POLICE PENSION FUND						
01/01/05	\$ 48,078,705	\$ 68,124,235	\$ 20,045,530	70.6%	\$ 10,069,858	199.06%
01/01/07	81,188,059	88,275,688	7,087,629	92.0%	11,186,195	63.36%
01/01/09	85,324,284	116,213,452	30,889,168	73.4%	11,349,615	272.2%
PAID FIREMEN'S PENSION FUND						
01/01/05	\$ 35,284,932	\$ 39,418,713	\$ 4,133,781	89.5%	\$ 8,026,617	51.5%
01/01/07	47,326,524	48,343,372	1,016,848	97.9%	7,187,428	14.1%
01/01/09	49,852,024	56,291,280	6,439,256	88.6%	8,018,210	80.3%
OFFICERS' AND EMPLOYEES' PENSION FUND						
01/01/05	\$ 39,767,213	\$ 53,054,485	\$ 13,287,272	74.96%	\$ 11,880,781	111.8%
01/01/07	57,572,084	57,081,669	(490,415)	100.86%	14,190,597	(3.5%)
01/01/09	53,650,657	60,800,584	7,149,927	88.24%	15,450,113	46.27%

II. SCHEDULES OF EMPLOYER CONTRIBUTIONS

Fiscal Year	Annual Required Contribution	Percentage Contributed
POLICE PENSION FUND		
2007	\$ 3,203,156	33%
2008	1,705,470	100%
2009	2,428,329	101%
FIREMEN'S PENSION FUND		
2007	\$ 1,209,423	44%
2008	1,289,485	100%
2009	1,346,126	100%
OFFICERS' AND EMPLOYEES' PENSION FUND		
2007	\$ 616,822	0%
2008	598,539	105%
2009	775,359	106%

CITY OF READING

SCHEDULE OF FUNDING PROGRESS -
POST EMPLOYMENT BENEFITS PLAN

December 31, 2009

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Business-Type Activities	1/1/2009	\$ -	\$ 859,537	\$ 859,537	0.00 %	\$ 6,192,276	138.78 %
Government Activities	1/1/2009	-	49,601,591	49,601,591	0.00	37,658,220	131.72
Total		<u>\$ -</u>	<u>\$ 26,676,711</u>	<u>\$ 26,676,711</u>	<u>0.00 %</u>	<u>\$ 43,850,496</u>	<u>132.71 %</u>

CITY OF READING

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2009

NOTE 1 - BUDGETARY COMPARISON SCHEDULE

The budgetary comparison schedule for the general fund is prepared using the modified accrual basis of accounting which is the same basis used to report actual expenditures.

The Community Development fund is a major fund, but had no legally adopted budget; therefore, no schedule is included in this report.

SUPPLEMENTARY INFORMATION

CITY OF READING

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGETARY BASIS -
GENERAL FUND

Year Ended December 31, 2009

	Original Budget	Final Budget	Actual	Variance
REAL ESTATE TAXES	\$ 16,180,579	\$ 16,180,579	\$ 15,770,385	\$ (410,194)
ACT 511 Taxes				
Per capita tax	80,000	80,000	72,778	(7,222)
Per capita tax - prior years	11,000	11,000	12,253	1,253
Real estate transfer tax	5,000,000	5,000,000	2,573,381	(2,426,619)
Earned income tax	8,134,390	8,134,390	7,442,832	(691,558)
Occupation tax	850,000	850,000	911,357	61,357
Occupation tax - prior years	120,000	120,000	236,772	116,772
Business privilege tax	1,450,000	1,450,000	1,336,734	(113,266)
Business privilege tax - prior years	190,000	190,000	187,084	(2,916)
Total Act 511 Taxes	15,835,390	15,835,390	12,773,191	(3,062,199)
LICENSES, PERMITS AND FINES				
Food permits	52,000	52,000	66,536	14,536
Building and electrical	1,015,000	1,015,000	1,100,121	85,121
Trades licenses	140,000	140,000	93,805	(46,195)
Business privilege	300,000	300,000	272,826	(27,174)
Street and pavement	55,000	55,000	44,010	(10,990)
Zoning and land development	170,000	170,000	186,737	16,737
Housing	1,050,000	1,050,000	393,911	(656,089)
Tax administration licenses	21,500	21,500	13,530	(7,970)
Franchise fees	700,000	700,000	717,072	17,072
No parking signs	1,600	1,600	2,800	1,200
Traffic fines	490,000	490,000	294,010	(195,990)
Penalties and interest	86,000	86,000	110,157	24,157
District court	1,000,000	1,000,000	933,451	(66,549)
Pre-settlement inspection fee	-	-	(80)	(80)
Other	526,000	526,000	91,248	(434,752)
Total Licenses, Permits and Fines	5,607,100	5,607,100	4,320,134	(1,286,966)
INTERGOVERNMENTAL				
Payments in lieu of taxes	90,000	90,000	96,149	6,149
Malt and liquor tax	42,500	42,500	56,950	14,450
Public utility tax	46,000	46,000	43,342	(2,658)
Snow and ice control	50,000	50,000	49,330	(670)
Reading Public Library	900,000	900,000	900,000	-
School guard	250,000	250,000	229,073	(20,927)
Pension - state aid	3,300,000	3,300,000	2,843,364	(456,636)
Volunteer Fire Relief Aid	-	-	57,922	57,922
Police training	130,000	130,000	128,370	(1,630)
Grant reimbursement - police	250,000	250,000	740,291	490,291
Grant reimbursement - public works	-	-	25,000	25,000
Total Intergovernmental	5,058,500	5,058,500	5,169,791	111,291

CITY OF READING

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED

Year Ended December 31, 2009

	Original Budget	Final Budget	Actual	Variance
CHARGES FOR SERVICES				
Recreational facilities	45,000	45,000	37,502	(7,498)
Swimming pool	50,000	50,000	55,361	5,361
Pagoda and tower	6,000	6,000	6,057	57
School district tax collection	797,000	797,000	718,346	(78,654)
Tax certifications	60,000	60,000	39,434	(20,566)
Admissions fee/tax	600,000	600,000	456,488	(143,512)
Police services	224,700	224,700	324,569	99,869
Fire services	455,400	455,400	430,101	(25,299)
Ambulance services	3,147,550	3,147,550	2,595,743	(551,807)
Housing Authority	135,000	135,000	108,135	(26,865)
Redevelopment Authority	25,000	25,000	-	(25,000)
Public works	87,000	87,000	69,353	(17,647)
Meter surcharge	2,975,000	2,975,000	1,345,846	(1,629,154)
Other	73,500	73,500	137,459	63,959
Total Charges for Service	8,681,150	8,681,150	6,324,394	(2,356,756)
INTEREST AND RENT				
Interest on investments	400,000	400,000	38,484	(361,516)
CD bond interest	145,000	145,000	198,414	53,414
Stadium rental	22,000	22,000	22,000	-
Building rental	50,000	50,000	63,129	13,129
Parking Authority	4,700,000	4,700,000	366,663	(4,333,337)
Greater Berks	275,000	275,000	308,571	33,571
Total Interest and Rent	5,592,000	5,592,000	997,261	(4,594,739)
OTHER				
Sale of city property	10,000	1,710,000	129,938	(1,580,062)
Donation from parking authority	-	-	3,107,747	3,107,747
Refund of prior year expenses	100,000	100,000	1,887	(98,113)
Recovery of damages	75,000	75,000	30,951	(44,049)
Indirect cost reimbursement:				
Community development	260,000	260,000	189,512	(70,488)
Recycling	87,584	87,584	149,063	61,479
Sewer	800,000	800,000	967,532	167,532
Water	580,000	580,000	749,901	169,901
Direct cost reimbursement - law	30,000	30,000	-	(30,000)
Direct cost reimbursement - planning	20,000	20,000	-	(20,000)
Direct cost reimbursement - code services	200,000	200,000	312,028	112,028
Direct cost reimbursement - community development	105,000	105,000	24,352	(80,648)
Direct cost reimbursement - pension	39,000	39,000	38,000	(1,000)
Direct cost reimbursement - sewer	215,000	215,000	192,405	(22,595)
Grants and gifts	100,000	100,000	435,368	335,368
Other shared revenues	-	-	45,600	45,600
Miscellaneous	109,523	109,525	21,283	(88,242)
Total Other	2,731,107	4,431,109	6,395,567	1,964,458
TOTAL REVENUES	59,685,826	61,385,828	51,750,723	(9,635,105)

CITY OF READING

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED

Year Ended December 31, 2009

	Original Budget	Final Budget	Actual	Variance
OTHER FINANCING SOURCES				
Bond proceeds	-	-	25,000,000	25,000,000
Bond discount	-	-	(123,038)	(123,038)
Forward bond sale	-	-	-	-
Operating transfers in:				
1985 Bond Fund	-	-	418,385	418,385
Capital Reserve City	20,000	20,000	2,640	(17,360)
General Agency Fund	15,000	15,000	-	(15,000)
Water Fund	4,020,000	4,020,000	3,855,099	(164,901)
Sewer Fund	3,000,000	3,388,717	3,000,000	(388,717)
Total Other Financing Sources	<u>7,055,000</u>	<u>7,443,717</u>	<u>32,153,086</u>	<u>24,709,369</u>
 TOTAL REVENUES AND OTHER FINANCING SOURCES	 <u><u>\$ 66,740,826</u></u>	 <u><u>\$ 68,829,545</u></u>	 <u><u>\$ 83,903,809</u></u>	 <u><u>\$ 15,074,264</u></u>

CITY OF READING

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGETARY BASIS -
GENERAL FUND

Year Ended December 31, 2009

	Original Budget	Final Budget	Actual	Variance
GENERAL GOVERNMENT				
Office of the Mayor				
Personal services	\$ 216,667	\$ 217,454	\$ 282,417	\$ (64,963)
Other operating expenditures	38,473	31,250	24,269	6,981
City Council				
Personal services	226,653	235,494	214,881	20,613
Other operating expenditures	53,834	67,800	34,124	33,676
City Auditor				
Personal services	130,632	133,571	140,084	(6,513)
Other operating expenditures	-	-	-	-
Office of the Managing Director				
Personal services	336,077	337,475	350,300	(12,825)
Other operating expenditures	177,165	195,447	191,930	3,517
Department of Finance:				
Treasury				
Personal services	202,393	202,303	198,938	3,365
Other operating expenditures	11,866	2,648	3,745	(1,097)
Office of the Director				
Personal services	305,115	228,835	249,737	(20,902)
Other operating expenditures	15,409	10,700	984,499	(973,799)
Purchasing				
Personal services	61,933	70,160	71,527	(1,367)
Other operating expenditures	329,209	340,525	350,605	(10,080)
Accounting				
Personal services	300,172	299,370	267,598	31,772
Other operating expenditures	4,956	9,300	9,047	253
Tax Administration				
Personal services	748,078	768,873	805,342	(36,469)
Other operating expenditures	104,816	118,125	121,996	(3,871)
Mailroom				
Personal services	46,404	47,961	15,029	32,932
Other operating expenditures	105,299	109,000	76,744	32,256
Information Technology				
Personal services	585,171	567,496	545,662	21,834
Other operating expenditures	1,246,020	1,179,050	908,887	270,163
Budget Administration				
Personal services	-	-	13,113	(13,113)
Other operating expenditures	-	-	-	-
Department of Human Resources				
Personal services	494,632	434,742	721,021	(286,279)
Other operating expenditures	54,533	56,450	43,327	13,123
Call Center				
Personal services	-	-	5,755	(5,755)
Other operating expenditures	-	-	11	(11)
Department of Law				
Personal services	349,705	343,667	347,629	(3,962)
Other operating expenditures	315,643	205,100	357,416	(152,316)
TOTAL GENERAL GOVERNMENT	6,460,855	6,212,796	7,335,633	(1,122,837)

CITY OF READING

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED

Year Ended December 31, 2009

	Original Budget	Final Budget	Actual	Variance
PUBLIC WORKS				
Department of Public Works:				
Fleet Management				
Personal services	601,778	622,910	593,373	29,537
Other operating expenditures	1,172,685	1,081,343	1,011,885	69,458
Traffic Engineering				
Personal services	217,240	120,703	200,117	(79,414)
Other operating expenditures	186,423	207,900	285,165	(77,265)
Public Works Administration				
Personal services	161,619	160,457	168,285	(7,828)
Other operating expenditures	269,122	281,200	261,116	20,084
Engineering				
Personal services	230,511	236,773	235,660	1,113
Other operating expenditures	2,502	2,850	933	1,917
Streets				
Personal services	937,015	968,090	1,113,183	(145,093)
Other operating expenditures	175,849	185,200	186,762	(1,562)
Parks				
Personal services	1,046,542	1,086,862	1,018,270	68,592
Other operating expenditures	229,705	165,200	92,246	72,954
Recreation				
Personal services	551,870	532,010	586,479	(54,469)
Other operating expenditures	81,231	85,400	103,558	(18,158)
Public Property				
Personal services	522,608	540,978	574,332	(33,354)
Other operating expenditures	1,348,956	1,396,367	1,501,432	(105,065)
TOTAL PUBLIC WORKS	7,735,656	7,674,243	7,932,796	(258,553)
PUBLIC SAFETY				
Police - Criminal Investigation				
Personal services	3,837,224	3,844,252	3,813,982	30,270
Other operating expenditures	101,579	111,619	84,576	27,043
Police - Special Services				
Personal services	2,333,101	2,412,475	2,377,101	35,374
Other operating expenditures	464,338	511,807	368,624	143,183
Police - Patrol				
Personal services	15,076,497	15,227,961	17,924,320	(2,696,359)
Other operating expenditures	347,186	381,588	252,524	129,064
Police - Administration				
Personal services	622,195	634,801	877,353	(242,552)
Other operating expenditures	77,386	92,915	59,857	33,058
Fire Administration				
Personal services	594,972	613,191	621,164	(7,973)
Other operating expenditures	72,359	67,312	108,372	(41,060)
Fire Special Services				
Personal services	445,971	459,611	403,046	56,565
Other operating expenditures	94,223	87,535	61,631	25,904
Fire Suppression				
Personal services	9,111,328	9,595,203	9,788,790	(193,587)
Other operating expenditures	491,523	350,800	274,282	76,518
Fire EMS				
Personal services	2,729,661	2,811,825	3,057,516	(245,691)
Other operating expenditures	669,556	599,613	442,019	157,594
TOTAL PUBLIC SAFETY	37,069,099	37,802,508	40,515,157	(2,712,649)

CITY OF READING

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED

Year Ended December 31, 2009

	Original Budget	Final Budget	Actual	Variance
COMMUNITY DEVELOPMENT				
Planning				
Personal services	65,500	67,728	77,599	(9,871)
Other operating expenditures	6,216	6,150	3,280	2,870
Administration				
Personal services	8,054	8,039	14,236	(6,197)
Other operating expenditures	58	60	24,066	(24,006)
Zoning				
Personal services	8,211	8,350	11,157	(2,807)
Other operating expenditures	1,739	7,064	12,859	(5,795)
Trades				
Personal services	268,343	277,100	306,184	(29,084)
Other operating expenditures	31,907	44,500	17,477	27,023
Codes				
Personal services	1,817,825	1,712,341	1,717,954	(5,613)
Other operating expenditures	63,269	143,425	109,612	33,813
TOTAL COMMUNITY DEVELOPMENT	2,271,122	2,274,757	2,294,424	(19,667)
CULTURE AND RECREATION				
Library				
Personal services	1,276,764	1,201,117	1,254,953	(53,836)
Other operating expenditures	120,756	125,000	92,385	32,615
TOTAL CULTURE AND RECREATION	1,397,520	1,326,117	1,347,338	(21,221)
DEBT SERVICE				
Principal	1,339,196	1,339,196	10,249,100	(8,909,904)
Interest	5,874,939	5,874,939	5,348,514	526,425
TOTAL DEBT SERVICE	7,214,135	7,214,135	15,597,614	(8,383,479)
NONDEPARTMENTAL				
Payroll and benefits	280,167	312,042	381,841	(69,799)
Other	4,184,837	4,185,512	798,177	3,387,335
TOTAL NONDEPARTMENTAL	4,465,004	4,497,554	1,180,018	3,317,536
TOTAL EXPENDITURES	66,613,391	67,002,110	76,202,980	(9,200,870)
OTHER FINANCING USES				
Swap termination fees	-	-	8,091,000	(8,091,000)
Transfers to component unit			120,000	
Transfers to other funds	1,827,435	1,827,435	9,534,984	(7,707,549)
TOTAL OTHER FINANCING USES	1,827,435	1,827,435	17,745,984	(15,798,549)
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 68,440,826	\$ 68,829,545	\$ 93,948,964	\$ (24,999,419)

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CITY OF READING

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2009

	Agency Fund	Liquid Fuels Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 1,796,128	\$ 1,684,750	\$ 3,480,878
Investments	226,060	-	226,060
Accounts receivable	2,840,272	-	2,840,272
Interfund receivables	472,860	(73,246)	399,614
TOTAL ASSETS	\$ 5,335,320	\$ 1,611,504	\$ 6,946,824
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 1,939,739	\$ 99,434	\$ 2,039,173
Interfund payables	1,790,883	810,103	2,600,986
Deferred revenue	1,031,268	-	1,031,268
TOTAL LIABILITIES	4,761,890	909,537	5,671,427
FUND BALANCES			
Unreserved	573,430	701,967	1,275,397
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,335,320	\$ 1,611,504	\$ 6,946,824

CITY OF READING

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS**

Year Ended December 31, 2009

	<u>Agency Fund</u>	<u>Liquid Fuels Fund</u>	<u>Totals</u>
REVENUES			
Intergovernmental	\$ 4,396,276	\$ 1,350,226	\$ 5,746,502
Interest and rent	117,371	6,933	124,304
Other	<u>-</u>	<u>8,450</u>	<u>8,450</u>
TOTAL REVENUES	<u>4,513,647</u>	<u>1,365,609</u>	<u>5,879,256</u>
EXPENDITURES			
Public safety			
Police	896,790	-	896,790
Fire	117,980	-	117,980
Public works - highways and streets	-	1,328,075	1,328,075
Parks and recreation	100,961	-	100,961
Community development	<u>3,542,864</u>	<u>-</u>	<u>3,542,864</u>
TOTAL EXPENDITURES	<u>4,658,595</u>	<u>1,328,075</u>	<u>5,986,670</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(144,948)	37,534	(107,414)
OTHER FINANCING USES			
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(144,948)	37,534	(107,414)
FUND BALANCES, BEGINNING OF YEAR	<u>718,378</u>	<u>664,433</u>	<u>1,382,811</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 573,430</u></u>	<u><u>\$ 701,967</u></u>	<u><u>\$ 1,275,397</u></u>

CITY OF READING

COMBINING BALANCE SHEET - ALL CAPITAL PROJECTS FUNDS

December 31, 2009

	Capital Reserve Fund	#26 Bond Fund	Line of Credit Fund	Totals
ASSETS				
Cash and cash equivalents	\$ 2,071,076	\$ -	\$ 8,530,259	\$ 10,601,335
Investments	471,345	-	-	471,345
Interfund receivable	2,503,595	-	166,000	2,669,595
Intergovernmental receivable	-	-	-	-
Notes receivable - noncurrent	4,182,348	-	-	4,182,348
TOTAL ASSETS	<u>\$ 9,228,364</u>	<u>\$ -</u>	<u>\$ 8,696,259</u>	<u>\$ 17,924,623</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	295,786	\$ 295,786
Interfund payables	2,640	-	51,792	54,432
FUND BALANCES				
Reserved for capital project	9,225,724	-	8,348,681	17,574,405
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,228,364</u>	<u>\$ -</u>	<u>\$ 8,696,259</u>	<u>\$ 17,924,623</u>

CITY OF READING

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL CAPITAL PROJECTS FUNDS

Year Ended December 31, 2009

	Capital Reserve Fund	#26 Bond Fund	Line of Credit Fund	Totals
REVENUES				
Interest and rent	\$ 2,640	\$ 2,398	\$ 5,796	\$ 10,834
Other	-	-	-	-
	<u>2,640</u>	<u>2,398</u>	<u>5,796</u>	<u>10,834</u>
EXPENDITURES				
Capital outlays	-	-	1,050,831	1,050,831
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,640	2,398	(1,045,035)	(1,039,997)
OTHER FINANCING SOURCES (USES)				
Operating transfers in/out	(2,640)	(418,386)	7,832,549	7,411,523
EXCESS (DEFICIENCY) OF REVENUES AND FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-	(415,988)	6,787,514	6,371,526
FUND BALANCES, BEGINNING OF YEAR	<u>9,225,724</u>	<u>415,988</u>	<u>1,561,167</u>	<u>11,202,879</u>
FUND BALANCES, END OF YEAR	<u>\$ 9,225,724</u>	<u>\$ -</u>	<u>\$ 8,348,681</u>	<u>\$ 17,574,405</u>

CITY OF READING

COMBINING STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

December 31, 2009

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Fiduciary Funds
ASSETS				
Cash and cash equivalents	\$ 3,293,009	\$ 2,290,991	\$ 1,215,552	\$ 6,799,552
Investments	69,504,403	37,562,310	44,819,324	151,886,037
Interfund receivables	1,054,474	537,686	-	1,592,160
TOTAL ASSETS	73,851,886	40,390,987	46,034,876	\$ 160,277,749
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	107,296	59,070	73,655	\$ 240,021
Interfund payable	12,410	6,947	18,644	38,001
TOTAL LIABILITIES	119,706	66,017	92,299	278,022
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 73,732,180	\$ 40,324,970	\$ 45,942,577	159,999,727
TOTAL NET ASSETS AND LIABILITIES				\$ 160,277,749

CITY OF READING

COMBINING STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS

Year Ended December 31, 2009

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Fiduciary Funds
ADDITIONS				
Contributions				
Member, city and state contributions	\$ 3,648,898	\$ 1,789,308	\$ 1,350,986	\$ 6,789,192
Investment income				
Interest and dividends	3,126,642	993,654	2,350	4,122,646
Realized and unrealized gain on sale of investments	6,215,578	5,121,454	8,207,029	19,544,061
TOTAL ADDITIONS	12,991,118	7,904,416	9,560,365	30,455,899
DEDUCTIONS				
Benefits, including tax withheld	6,083,923	2,952,979	3,825,410	12,862,312
Administrative expenses	384,067	199,280	297,723	881,070
Refunds paid	38,655	185	30,345	69,185
TOTAL DEDUCTIONS	6,506,645	3,152,444	4,153,478	13,812,567
NET INCREASE	6,484,473	4,751,972	5,406,887	16,643,332
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	67,247,707	35,572,998	40,535,690	143,356,395
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	<u>\$ 73,732,180</u>	<u>\$ 40,324,970</u>	<u>\$ 45,942,577</u>	<u>\$ 159,999,727</u>

CITY OF READING

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2009

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grant Period	Grant Contract
U.S. DEPARTMENT OF HOUSING				
CDBG	D	14.218	01/01/07-12/31/07	B07MC420013
CDBG	D	14.218	01/01/08-12/31/08	B08MC4-20013
CDBG	D	14.218	01/01/09-12/31/09	B09MC4-20013
ESG	D	14-231		S07MC420006
ESG	D	14-231		S08MC4-20006
ESG	D	14-231		S09MC4-20006
HRP (ARRA)	D	14-257		S09MY4-20006
HOME Program	D	14-239		M05MC420204
HOME Program	D	14-239		M06MC420204
HOME Program	D	14-239		M07MC420204
HOME Program	D	14-239		M08MC420204
HOME Program	D	14-239		M09MC420204
Fair Housing	D	14.401	10/01/07-9/30/08	FF203K083012
Fair Housing	D	14.401	10/01/08-9/30/09	FF203K093012
TOTAL U.S. DEPT. OF HOUSING				
U.S. DEPARTMENT OF JUSTICE				
222 Corridor Anti-Gang Initiative	I	16.744	06/01/06-05/31/09	2006-PG-BX-0099
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/05-09/30/09	2006-DJ-BX-0287
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/07-09/30/11	2008-DJ-BX-0396
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/08-09/30/12	2009-DJ-BX-1229
Bulletproof Vest Partnership	D	16.607	01/01/08-12/31/08	2008
Bulletproof Vest Partnership	D	16.607	01/01/09-12/31/09	2009
SRO GREAT Program	D	16.737	06/01/08-11/30/09	2008-JV-FX-0018
COPS	D	16.710	12/26/07-12/25/10	2008-CK-WX-0171
COPS	D	16.710	12/26/07-12/25/10	2008-CK-WX-0255
FY 2009 Recovery Act Justice Assistance Grant Program (ARRA)	D	16.804	03/01/09-02/28/13	2009-SB-B9-2498
COPS Hiring Recovery Program (ARRA)	D	16.710	07/01/09-06/30/12	2009RKWX0716
PCCD Pass Through (ARRA)				
Reading Weed and Seed Federal Award #2009-SU-B9-0014	I	16.803	07/01/09-06/30/10	2009-AJ-03-20621
Police Domestic Violence Prevention Program Federal Award #2009-EF-S6-0037	I	16.588	01/01/10-04-30-11	2009-AS-03/05-20454
TOTAL U.S. DEPT. OF JUSTICE				
U.S. DEPARTMENT OF DEFENSE				
Office of Economic Adjustment	D	12-607	06/01/08-03/31/10	CL0613-08-02
TOTAL U.S. DEPT. OF DEFENSE				
U.S. DEPARTMENT OF ENERGY				
Energy Efficiency and Conservation Block Grant (ARRA)	D	81.128	08/04/09-08/03/12	DE-SC0001250
TOTAL U.S. DEPT. OF ENERGY				
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION				
Equal Employment Opportunity Commission	D	30.001	10/01/05-09/30/07	5FPSLP0271
Equal Employment Opportunity Commission	D	30.001	10/01/07-09/30/08	EECCN080035
TOTAL U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION				
TOTAL FEDERAL AWARDS				

^ - It is unknown whether this is federal funding.

Source Codes

I - Indirect

D - Direct

Total Award	PY Recognized	Accrued (Deferred) 12/31/08	Amount Received	Revenue Recognized	Expenditures	Accrued (Deferred) 12/31/09
\$ 3,174,833	\$ 3,159,860	\$ 109,919	\$ 124,892	\$ 14,973	\$ 14,973	\$ -
3,050,743	518,088	276,456	1,681,116	1,462,567	1,462,567	57,907
3,098,764	-	-	-	-	-	-
137,325	137,325	15,923	15,923	-	-	-
136,792	15,611	15,611	123,063	129,606	129,606	22,154
135,829	-	-	-	-	-	-
1,267,021	-	-	182,745	280,367	280,367	97,622
1,059,048	1,034,587	41,013	37,483	24,461	24,461	27,991
999,170	549,333	-	166,144	449,837	449,837	283,693
992,956	893,660	-	-	49,974	49,974	49,974
962,215	-	-	246,593	-	-	(246,593)
1,071,352	-	-	-	-	-	-
151,780	151,780	-	151,780	151,780	151,780	-
136,728	-	-	-	-	-	-
		458,922	2,729,739	2,563,565	2,563,565	292,748
	226,225	102,454	182,481	124,708	124,708	44,681
87,324	-	(22,220)	-	59,544	59,544	37,324
43,212	-	-	-	30,185	30,185	30,185
134,365	-	-	-	-	-	-
19,538	-	-	-	19,064	19,064	19,064
15,630	-	-	-	10,094	10,094	10,094
73,483	675	675	-	32,317	32,317	32,992
1,169,125	262,695	262,695	-	214,791	214,791	477,486
607,945	-	-	-	32,462	32,462	32,462
						-
640,806	-	-	-	31,580	31,580	31,580
1,000,100	-	-	-	-	-	-
80,000	-	-	-	20,000	20,000	20,000
93,577	-	-	-	-	-	-
		343,604	182,481	574,745	574,745	735,868
120,000	-	-	-	98,385	98,385	98,385
		-	-	98,385	98,385	98,385
791,000	-	-	-	-	-	-
	-	-	-	-	-	-
105,200	6,958	6,958	-	-	-	6,958
27,370	-	(24,410)	-	24,410	24,410	-
		(17,452)	-	24,410	24,410	6,958
		<u>\$ 785,074</u>	<u>\$ 2,912,220</u>	<u>\$ 3,261,105</u>	<u>\$ 3,261,105</u>	<u>1,133,959</u>

CITY OF READING

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2009

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting which recognizes income in the period it is earned and expenses in the period they are incurred.

NOTE 2 - SUBRECIPIENTS

The City of Reading provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Community Development Block Grant (CDBG)	14.218	\$ 255,717
Emergency Shelter Grant (ESG)	14.231	129,255
HOME Program	14.239	862,237



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Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards

**Members of the Council
City of Reading
Reading, Pennsylvania**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Reading, as of and for the year ended December 31, 2009, which collectively comprise the City of Reading's basic financial statements, and have issued our report thereon dated July 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Reading's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Reading's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Reading's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned cost, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies 09-1 through 09-5 and 09-7 through 09-9 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 09-6 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Reading's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 09-4, 09-5, 09-6, and 09-8.

We also noted certain other matters that we reported to management of the City of Reading in a separate letter dated July 20, 2010.

The City of Reading's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the City of Reading's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Herbein + Company, Inc.

Reading, Pennsylvania
July 20, 2010



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Report on Compliance with Requirements
Applicable to Each Major Program and Internal
Control Over Compliance in Accordance with
OMB Circular A-133

Members of the Council
City of Reading
Reading, Pennsylvania

Compliance

We have audited the compliance of the City of Reading with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The City of Reading's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Reading's management. Our responsibility is to express an opinion on the City of Reading's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Reading's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Reading's compliance with those requirements.

As described in item 09-2 in the accompanying schedule of findings and questioned costs, the City of Reading did not comply with requirements regarding cash management requirements that are applicable to Community Development Block Grant and Home Investment Partnerships Program. Compliance with such requirements is necessary, in our opinion, for the City of Reading to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Reading complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.



Internal Control Over Compliance

Management of the City of Reading is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Reading's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Reading's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 09-2 and 09-3 to be a material weakness.

The City of Reading's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City of Reading's response and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Herbein + Company, Inc.

Reading, Pennsylvania
July 20, 2010

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified
Internal control over financial reporting:
Material weakness(es) identified? X yes no
Significant deficiency(s) identified not considered to be
material weaknesses? X yes none reported
Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? X yes no
Significant deficiency(s) identified not considered to be
material weaknesses? yes X none reported
Type of auditor's report issued on compliance for major programs: qualified for all
major programs
Any audit findings disclosed that are required to be
reported in accordance with Circular A-133, Section .510(a)? X yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.239	Home Investment Partnerships Program

Dollar threshold used to distinguish between Type A and Type B
programs: \$300,000
Auditee qualified as low-risk auditee? yes X no

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
December 31, 2009

Section II - Financial Statement Findings

09-1 MODIFIED ACCRUAL/FULL ACCRUAL BASIS OF ACCOUNTING

Criteria

Reporting in accordance with generally accepted accounting principles requires financial information for governmental funds to be reported on the modified accrual basis of accounting and for proprietary funds to be reported on the full accrual basis of accounting.

Condition/Cause

The Accounting Department records accounts payable throughout the fiscal year, but accounts receivable are only reconciled at year-end. In addition, significant adjustments are posted at year-end to bring numerous funds into compliance with U.S. generally accepted accounting principles.

Effect

Revenues are not being recognized consistently with expenditures and material adjustments are necessary at year-end resulting in inconsistent reporting.

Recommendation

All accounts should be reconciled on a timely basis consistent with reporting as required by U.S. generally accepted accounting principles.

Benefit

Matching revenues to expenditures and reconciling balance sheet accounts for all funds on a routine basis provides for more consistent reporting to provide a more accurate assessment of financial needs.

Management Response

See corrective action plan included in this report package.

09-2 GRANT RECEIPTS

Criteria

The City receives funding from the Department of Housing and Urban Development (HUD) and uses a separate fund for tracking and reporting purposes. The IDIS system is used to communicate information to HUD as well as to draw down the funds and report program income.

Condition/Cause

There continues to be a need for improvement between the Community Development and Finance Departments to enhance the timeliness of IDIS reporting to be more consistent with the general ledger activity.

Effect

The City is not drawing down grant funds as expenditures are incurred and therefore, current resources are not being utilized as effectively as they could be.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2009

09-2 GRANT RECEIPTS - CONTINUED

Recommendation

The CD Fiscal Officer is responsible for the timely draw down of grant funds. Although some improvement was noted from the prior year, it is imperative that the Finance and Community Development Departments communicate to make sure draw downs related to expenditures being processed are drawn down in a timely fashion. Implementation of additional procedures could ensure an increased efficiency in this area.

Benefit

The City will enhance cash flow by more quickly drawing down reimbursement funds from HUD.

Management Response

See corrective action plan included in this report package.

09-3 CASH DISBURSEMENTS - SEGREGATION OF DUTIES

Criteria

The process for the City to disburse funds includes a voucher payment request that is supposed to be approved by the initiating department and the Finance Department. The Managing Director also approves the voucher if a specific dollar threshold is met.

Condition/Cause

The disbursement process for authorizations is no longer being followed due to turnover in management positions and the need to timely disburse funds. The Assistant to the Finance Director has been given the responsibility to sign on behalf of numerous individuals, thus eliminating critical steps in the control process.

Effect

The City no longer has an appropriate segregation of duties over cash disbursements. In addition, there is no documented evidence that management has reviewed numerous disbursements, and this makes the City more susceptible to misappropriation of assets.

Recommendation

We recommend that a process be implemented to enhance the control process for cash disbursements, which would include appropriate segregation of duties, management oversight, and timely payment of invoices.

Benefit

The City will enhance the control structure and reduce the risk of misappropriation of assets.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2009

09-4 PENSION REPORTING

Criteria

The City reports annual wages related to their active pension plans on Form AG-385 and submits the form to the state. The form is used to assist in the calculation of annual pension funding the City will be receiving from the state.

Condition/Cause

There has been turnover in the Pension Administrator position as well as within the Finance Department, and there have been other priorities plaguing these positions.

Effect

The City will receive state funding for pension obligations based on wages reported on the annual report. If wages are reported in excess of actual wages, the City will be over-funded by the state.

Recommendation

The preparation of the AG-385 should be completed in consideration of actual wages paid and the Internal Auditor's office should oversee the reporting due to the extensive involvement of the Internal Auditor with the pension funds.

Benefit

The City will be more capable of substantiating the AG-385 during state audits if appropriate supporting documentation is maintained. In addition, there is less likely to be excess funds received from the state.

Management Response

See corrective action plan included in this report package.

09-5 PENSION COMPLIANCE

Criteria

The City has made significant changes to the pension plans over the past several years. It is imperative that these changes are made in accordance with state code for third class cities and the City Charter.

Condition/Cause

Numerous benefits have been granted to union employees that were not within the parameters of the established codes.

Effect

The City has granted benefits that are out of compliance with state code and the City Charter. In addition, the City failed to remit minimum municipal obligations to the pension funds during 2007.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2009

09-5 PENSION COMPLIANCE - CONTINUED

Recommendation

State code and the City Charter should be evaluated during negotiations to ensure pension compliance prior to settlement of all union contracts. The City should also monitor requirements for remitting funding obligations to each fund.

Benefit

The City will be in compliance with governing documents related to pension.

Management Response

See corrective action plan included in this report package.

09-6 UNCLAIMED PROPERTY

Criteria

Pennsylvania Statute 72 P.S. 1301 requires an entity to annually file an unclaimed property report by April 15th.

Condition/Cause

Though the City timely filed the report for 2007 and 2008, there were outstanding items noted on the general ledger that should have been turned over to the state in accordance with the statute and were not.

Effect

The City was out of compliance with a state statute.

Recommendation

We recommend that the City evaluate all tax overpayments and outstanding checks to determine if there is unclaimed property to be remitted to the State.

Benefit

The City would be in compliance with State statute.

Management Response

See corrective action plan.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2009

09-7 SEGREGATION OF DUTIES - BANK RECONCILIATIONS

Criteria

Segregation of duties serves as a check and balance on employees' integrity and to maintain the best control system possible.

Condition/Cause

One individual is responsible for reconciling the two primary general fund checking accounts in addition to overseeing all general ledger functions.

Effect

Inadequate system of checks and balances poses a risk to the City's ability to accurately report its financial information and increases the City's susceptibility to misappropriation of assets.

Recommendation

We recommend that different individuals should perform the separate duties processing entries to the general ledger and performing bank reconciliation functions. At a minimum, we recommend having a knowledgeable individual review the bank reconciliations and the general ledger.

Benefit

An effective internal control system contains several checks and balances to reduce the risk of misappropriation of assets.

Management Response

See corrective action plan.

09-8 DCED REPORTING REQUIREMENTS

Criteria

The Department of Community and Economic Development (DCED) establishes reporting requirements for municipalities. The City did not timely file all of the required reports.

Condition/Cause

We noted several overdue reports due to DCED in March, 2009, including 2007 Tax Information due on 1/16/07 and 2009 Tax Information due on 1/16/09.

Effect

The City was out of compliance with state requirements.

Recommendation

We recommend that the City monitor mandatory reporting requirements and comply with filing deadlines.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2009

09-8 DCED REPORTING REQUIREMENTS - CONTINUED

Benefit

The City would be in compliance with state statute.

Management Response

See corrective action plan.

09-9 INFORMATION TECHNOLOGY

Criteria

The City relies on information generated by numerous software packages to make critical operating decisions. Changes to the software and its reports are made by the Information Technology (IT) Department to extract relevant information for analysis and reporting purposes.

Condition/Cause

There are several employees in the IT Department working on numerous projects. Documentation should be retained on changes being made and testing of reports prior to implementation should be done to ensure an accurate and useful final product. Projects should be prioritized and changes evaluated by someone with financial background.

Effect

During 2009, inaccurate reporting generated from software was still a problem. There is improvement, but the critical nature of the area requires that all financial and user data be timely and accurate.

Recommendation

An increased separation of duties and testing prior to implementation would enhance overall internal controls in the IT Department as well as enhance the accuracy of reporting. The addition of a coordinator, with a financial background, to oversee and prioritize departments' requests and to test alterations being made would add an additional level of oversight to the department.

Benefit

With the City's investment in software packages and IT personnel, increased controls and policies could improve overall operation of the IT Department and output of useful and accurate financial reports.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2009

09-10 Financial Reporting to Management

Criteria

In order to effectively manage the finances of the City, it is important for management to obtain timely, accurate and meaningful financial information from the finance department. This information should accurately portray the financial picture of the city's major funds compared to budget or other meaningful benchmarks and be distributed to senior management as well as City Council timely.

Condition/Cause

Currently the information being disseminated to City Council and senior management is not sufficient. The Financial information is not presented in a meaningful format showing the true cost of operations compared to budget. It was also noted that City Council and senior management was receiving limited financial information throughout the 2009 fiscal year.

Effect

Without timely, accurate and meaningful financial information, City Council and senior management will not be able to properly monitor the City's true financial condition and create proper policy in relation to those conditions.

Recommendation

We recommend the finance department revisit the information that is being distributed to senior management and City Council to ensure that accurate, timely and meaningful information is being presented. Information presented should show results of operations as well as other sources and uses of funds such as transfers and debt proceeds. We also recommend a comparison of budget to actual costs be presented to allow City Council and senior management a better understanding of the true financial position of the City.

Benefit

In being better informed as to the City's ongoing financial condition, management and City Council can be proactive in responding to financial concerns. The information will also allow senior management to better monitor the operations of the City.

Management Response

See corrective action plan included in this report package.

CITY OF READING

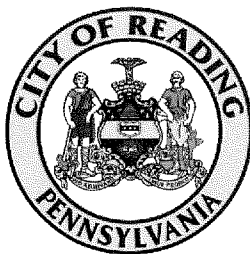
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2009

Section III - Federal Award Findings and Questioned Costs

- 09-2 Grant Receipt Finding is also a Federal Award Finding which related to CDBG 14.218 program - Contracts BO9MC420013 and BO8MC420013.
- 09-3 Cash Disbursements - Segregation of Duties Finding is also a Federal Award Finding which related to CDBG 14.218 program Contracts BO8MC420013 and BO9MC420013 and HOME Program 14.239 Contracts M05MC420204, M06MC420204, and M07MC420204.

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CITY OF READING, PENNSYLVANIA

FINANCE DEPARTMENT
ACCOUNTING/TREASURY DIVISION
815 WASHINGTON STREET
READING, PA 19601-3690
(610) 655-2583

DAWN CIENIEWICZ
ACCOUNTING/TREASURY
MANAGER

Status of Prior Year Federal Award Findings and Questioned Costs

08-2 Grants Receipts Finding is also a Federal Award Finding which related to CDBG 14.218 program - Contract BO7MC420013 and BO8MC420013.

Criteria

The City receives funding from the Department of Housing and Urban Development (HUD) and uses a separate fund for tracking and reporting purposes. The IDIS system is used to communicate information to HUD as well as to draw down the funds and report program income.

Condition/Cause

There continues to be a need for improvement between the Community Development and Finance Departments to enhance the timeliness of IDIS reporting to be more consistent with the general ledger activity.

Effect

The City is not drawing down grant funds as expenditures are incurred and therefore, current resources are not being utilized as effectively as they could be.

Recommendation

The CD Fiscal Officer is responsible for the timely draw down of grant funds. It is imperative that the Finance and Community Development Departments communicate to make sure draw downs related to expenditures being processed are drawn down in a timely fashion. Implementation of additional procedures could ensure an increased efficiency in this area.

Benefit

The City will be able to accurately reconcile its HUD funds to the general ledger activity on an ongoing basis.

Management Response

In September 2007, policy and procedures were implemented to insure timely draw down of HUD funds. The CD Fiscal officer does monthly reconciliations between the IDIS system and the City's general ledger. This has significantly improved the timeliness and efficiency of all IDIS reporting to be more consistent with the general ledger.

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 09-2.



08-3 Cash Disbursements - Segregation of Duties Finding is also a Federal Award Finding which related to CDBG 14.218 program Contracts BO7MC420013 and BO8MC420013 and COPS Technology Program 16.710 Contract 2008 CK-WX-0171.

Criteria

The process for the City to disburse funds includes a voucher payment request that is supposed to be approved by the initiating department and the Finance Department. The Managing Director also approves the voucher if a specific dollar threshold is met.

Condition/Cause

The disbursement process for authorizations is no longer being followed due to turnover in management positions and the need to timely disburse funds. The Assistant to the Finance Director has been given the responsibility to sign on behalf of numerous individuals, thus eliminating critical controls in the process.

Effect

The City no longer has an appropriate segregation of duties over cash disbursements. In addition, there is no documented evidence that management has reviewed numerous disbursements, and this makes the City more susceptible to misappropriation of assets.

Recommendation

We recommend that a process be implemented to enhance the control process for cash disbursements, which would include appropriate segregation of duties, management oversight, and timely payment of invoices.

Benefit

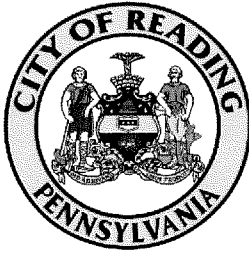
The City will enhance the control structure and reduce the risk of misappropriation of assets.

Management Response

The City currently has proper controls in place for approving vouchers. However during 2008 two key positions within the finance department became vacant. These positions were required signatures on our voucher documents. Although these documents were reviewed by our internal auditor and his assistant their signature is absent from the form. Both of these key positions have been filled and therefore management does not expect this to be an issue in the future. Also other controls have been put in place in case of loss of personnel to ensure that someone from management is overseeing this process.

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 09-3.



CITY OF READING, PENNSYLVANIA

FINANCE DEPARTMENT
ACCOUNTING/TREASURY DIVISION
815 WASHINGTON STREET
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DAWN CIENIEWICZ
ACCOUNTING/TREASURY
MANAGER

Commonwealth of Pennsylvania
Office of Budget
Bureau of Audits
P.O. Box 1326
Harrisburg, PA 17105

**Re: Corrective Action Plan
2009 Reportable Conditions**

Dear Sir or Madam:

Please accept the following as our official response and Corrective Action Plan for the reportable conditions identified by our auditors in the City of Reading Annual Audit for the year ending December 31, 2009.

09-1 MODIFIED ACCRUAL/FULL ACCRUAL BASIS OF ACCOUNTING

Criteria

Reporting in accordance with generally accepted accounting principles requires financial information for governmental funds to be reported on the modified accrual basis of accounting and for proprietary funds to be reported on the full accrual basis of accounting.

Condition/Cause

The Accounting Department records accounts payable throughout the fiscal year, but accounts receivable are only reconciled at year-end. In addition, significant adjustments are posted at year-end to bring numerous funds into compliance with U.S. generally accepted accounting principles.

Effect

Revenues are not being recognized consistently with expenditures and material adjustments are necessary at year-end resulting in inconsistent reporting.

Recommendation

All accounts should be reconciled on a timely basis consistent with reporting as required by U.S. generally accepted accounting principles.



Benefit

Matching revenues to expenditures and reconciling balance sheet accounts for all funds on a routine basis provides for more consistent reporting to provide a more accurate assessment of financial needs.

Management Response

The Accounting Division does reconcile receivables for all funds on a consistent and timely basis. However we rely on other departments/divisions for information to accurately reflect our receivables and because corrections are made by other department/divisions to customer's accounts, year end adjustments are needed to accurately reflect our receivable balance. The Finance Department is looking into creating a central billing department to handle all City customer accounts. This will ensure that proper recording of adjustments are made on a more consistent basis.

09-2 GRANT RECEIPTS

Criteria

The City receives funding from the Department of Housing and Urban Development (HUD) and uses a separate fund for tracking and reporting purposes. The IDIS system is used to communicate information to HUD as well as to draw down the funds and report program income.

Condition/Cause

There continues to be a need for improvement between the Community Development and Finance Departments to enhance the timeliness of IDIS reporting to be more consistent with the general ledger activity.

Effect

The City is not drawing down grant funds as expenditures are incurred and therefore, current resources are not being utilized as effectively as they could be.

Recommendation

The CD Fiscal Officer is responsible for the timely draw down of grant funds. It is imperative that the Finance and Community Development Departments communicate to make sure draw downs related to expenditures being processed are drawn down in a timely fashion. Implementation of additional procedures could ensure an increased efficiency in this area.

Benefit

The City will enhance cash flow by more quickly drawing down reimbursement funds from HUD.

Management Response

In 2009 there was a turn over in staff within the Community Development Department and Finance Department. During the summer of 2009, our IDIS system was updated and, there was a problem getting these individuals set up in the IDIS system, thus causing a two month delay in drawing down HUD funds. The policy and procedures put in place are following by the CD fiscal officer. The CD Fiscal officer does bi-monthly reconciliations between the IDIS system and the City's general ledger. Without any further problems with the IDIS system and no changes in staff, we do not anticipate this to be a finding in the future.

09-3 CASH DISBURSEMENTS – SEGREGATION OF DUTIES

Criteria

The process for the City to disburse funds includes a voucher payment request that is supposed to be approved by the initiating department and the Finance Department. The Managing Director also approves the voucher if a specific dollar threshold is met.

Condition/Cause

The disbursement process for authorizations is no longer being followed due to turnover in management positions and the need to timely disburse funds. The Assistant to the Finance Director has been given the responsibility to sign on behalf of numerous individuals, thus eliminating critical controls in the process.

Effect

The City no longer has an appropriate segregation of duties over cash disbursements. In addition, there is no documented evidence that management has reviewed numerous disbursements, and this makes the City more susceptible to misappropriation of assets.

Recommendation

We recommend that a process be implemented to enhance the control process for cash disbursements, which would include appropriate segregation of duties, management oversight, and timely payment of invoices.

Benefit

The City will enhance the control structure and reduce the risk of misappropriation of assets.

Management Response

The Finance Department is currently updating the policy and procedures for approving payment of invoices to allow for better controls in processing payments in a timelier manner. Furthermore, all documents are reviewed by our internal auditor and his assistant however their signature is absent from the form.

09-4 PENSION REPORTING

Criteria

The City reports annual wages related to their active pension plans on Form AG-385 and submits the form to the state. The form is used to assist in the calculation of annual pension funding the City will be receiving from the state.

Condition/Cause

There has been turnover in the Pension Administrator position as well as within the Finance Department, and there have been other priorities plaguing these positions.

Effect

The City will receive state funding for pension obligations based on wages reported on the annual report. If wages are reported in excess of actual wages, the City will be over-funded by the state.

Recommendation

The preparation of the AG-385 should be completed in consideration of actual wages paid and the Internal Auditor's office should oversee the reporting due to the extensive involvement of the Internal Auditor with the pension funds.

Benefit

The City will be more capable of substantiating the AG-385 during state audits if appropriate supporting documentation is maintained. In addition, there is less likely to be excess funds received from the state.

Management Response

In late 2008 the Pension Administrator position was moved to the Department of Finance. The AG-385 was completed by an employee no longer with the City. The new administrator was properly trained on completing the AG-385 using actual wages, not pension wages as done in the past. The City's internal auditor along with the Accounting Manager will review the report before it is submitted to the state.

09-5 PENSION COMPLIANCE

Criteria

The City has made significant changes to the pension plans over the past several years. It is imperative that these changes are made in accordance with state code for third class cities and the City Charter.

Condition/Cause

Numerous benefits have been granted to union employees that were not within the parameters of the established codes.

Effect

The City has granted benefits that are out of compliance with state code and the City Charter. In addition, the City failed to remit minimum municipal obligations to the pension funds during 2007.

Recommendation

State code and the City Charter should be evaluated during negotiations to ensure pension compliance prior to settlement of all union contracts. The City should also monitor requirements for remitting funding obligations to each fund.

Benefit

The City will be in compliance with governing documents related to pension.

Management Response

The City will hire a labor/union lawyer to negotiate all future union contracts. This will ensure that the City is in compliance with all applicable state and local codes.

09-6 UNCLAIMED PROPERTY

Criteria

Pennsylvania Statute 72 P.S. 1301 requires an entity to annually file an unclaimed property report to be filed by April 15th.

Condition/Cause

Though the City timely filed the report for 2007 and 2008, there were outstanding items noted on the general ledger that should have been turned over to the state in accordance with the statute and were not.

Effect

The City was out of compliance with a state statute.

Recommendation

We recommend that the City evaluate all tax overpayments and outstanding checks to determine if there is unclaimed property to be remitted to the State.

Benefit

The City would be in compliance with State statute.

Management Response

In 2009, all outstanding payroll and AP checks were properly reported as well as all tax overpayments. The outstanding checks that were not reported were pension checks that we believed had a longer reporting period. Through the audit we were informed that our outstanding pension checks are considered payroll checks and therefore should be reported as such. The Accounting Manager is currently working on reconciling old outstanding pension checks to determine what needs to be reported to the State.

09-7 SEGREGATION OF DUTIES - BANK RECONCILIATIONS

Criteria

Segregation of duties serves as a check and balance on employees' integrity and to maintain the best control system possible.

Condition/Cause

One individual is responsible for reconciling the two primary general fund checking accounts in addition to overseeing all general ledger functions.

Effect

Inadequate system of checks and balances poses a risk to the City's ability to accurately report its financial information and increases the City's susceptibility to misappropriation of assets.

Recommendation

We recommend that different individuals should perform the separate duties processing entries to the general ledger and performing bank reconciliation functions. At a minimum, we recommend having a knowledgeable individual review the bank reconciliations and the general ledger.

Benefit

An effective internal control system contains several checks and balances to reduce the risk of misappropriation of assets.

Management Response

The Accounting Division has experienced several staffing changes in the past few years. Due to these changes the division manager took over the duty of reconciling the two main checking accounts. The City Auditor will be responsible for overseeing these two accounts.

09-8 DCED REPORTING REQUIREMENTS

Criteria

The Department of Community and Economic Development (DCED) establishes reporting requirements for municipalities. The City did not timely file all of the required reports.

Condition/Cause

We noted several overdue reports due to DCED in March, 2009, including 2007 Tax Information due on 1/16/07 and 2009 Tax Information due on 1/16/09.

Effect

The City was out of compliance with state requirements.

Recommendation

We recommend that the City monitor mandatory reporting requirements and comply with filing deadlines.

Benefit

The City would be in compliance with state statute.

Management Response

The City's internal auditor will work the City's administration ensure that all mandatory reporting requirements are filed on time.

09-9 INFORMATION TECHNOLOGY

Criteria

The City relies on information generated by numerous software packages to make critical operating decisions. Changes to the software and its reports are made by the Information Technology (IT) Department to extract relevant information for analysis and reporting purposes.

Condition/Cause

There are several employees in the IT Department working on numerous projects. Documentation should be retained on changes being made and testing of reports prior to implementation should be done to ensure an accurate and useful final product. Projects should be prioritized and changes evaluated by someone with financial background.

Effect

During 2007, inaccurate reporting generated from software was still a problem. There is improvement, but the critical nature of the area requires that all financial and user data be timely and accurate.

Recommendation

An increased separation of duties and testing prior to implementation would enhance overall internal controls in the IT Department as well as enhance the accuracy of reporting. The addition of a coordinator, with a financial background, to oversee and prioritize departments' requests and to test alterations being made would add an additional level of oversight to the department.

Benefit

With the City's investment in software packages and IT personnel, increased controls and policies could improve overall operation of the IT Department and output of useful and accurate financial reports.

Management Response

It is the policy of the IT division that all user request programming and reports be tested and verified for accuracy, in writing, by the parent department prior to implementation in the production system. The IT hired several new employee in 2009 enhance the performance of the IT Division. Also new software is currently being implemented to better assist the IT Division improve its overall operations.

09-10 FINANCIAL REPORTING TO MANAGEMENT

Criteria

In order to effectively manage the finances of the City, it is important for management to obtain timely, accurate and meaningful financial information from the finance department. This information should accurately portray the financial picture of the City's major funds compared to budget or other meaningful benchmarks and be distributed to senior management as well as City Council timely.

Condition/Cause

Currently the information being disseminated to City Council and senior management is not sufficient. The Financial information is not presented in a meaningful format showing the true cost of operations compared to budget. It is also noted that City Council and senior management was receiving limited financial information throughout the 2009 fiscal year.

Effect

Without timely, accurate and meaningful financial information, City Council and senior management will not be able to properly monitor the City's true financial condition and create proper policy in relation to those conditions.

Recommendation

We recommend the finance department revisit the information that is being distributed to senior management and City Council to ensure that accurate, timely and meaningful information is being presented. Information presented should show results of operations as well as other sources and uses of funds such as transfer and debt proceeds. We also recommend a comparison of budget to actual costs be presented to allow City Council and senior management a better understanding of the true financial position of the City.

Benefit

In being better informed as to the City's ongoing financial condition, management and City Council can be proactive in responding to financial concerns. The information will also allow senior management to better monitor the operations of the City.

Management Response

In 2009 a new Finance Director was hired and has worked with City Council in providing them the information that they need to better monitor the operations of the City. We are currently updating our financial software which will provide better and more meaningful reports to City Council and senior management.

Federal Award Findings and Questioned Costs

09-2 Grant Receipt Finding is also a Federal Award Finding which related to CDBG 14.218 program - Contracts BO9MC420013 and BO8MC420013.

See management's response to 09-2.

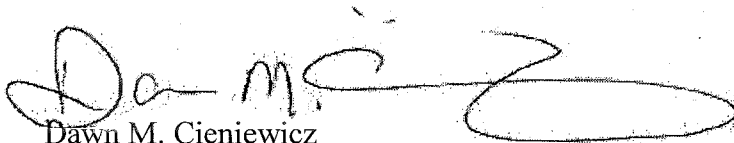
09-3 Cash Disbursements - Segregation of Duties Finding is also a Federal Award Finding which related to CDBG 14.218 program Contracts BO8MC420013 and BO9MC420013 and HOME Program 14.239 Contracts M05MC420204, M06MC420204 and M07MC420204.

See management's response to 09-3

I would like to thank the efforts of the Accounting Division and the Finance Department who came together as a whole to try and get these tasks completed in a timely fashion in order for the Auditors to complete the Audit in the timeline according to the City Charter.

If you have any questions regarding this plan, please feel free to contact me. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Dawn M. Cieniewicz", with a large, stylized flourish at the end.

Dawn M. Cieniewicz

Accounting and Treasury Division Manager